

State Board of Equalization

1997-98 Annual Report



Board Members

Johan Klehs
First District

Dean F. Andal
Second District

Ernest J. Dronenburg, Jr.
Third District

John Chiang
Fourth District

Kathleen Connell
State Controller

E. L. Sorensen, Jr.
Executive Director

MISSION

The mission of the State Board of Equalization is to serve the public through fair, effective, and efficient tax administration.

GOALS

The State Board of Equalization will

- ◆ Interpret and apply tax and fee laws correctly, consistently, and fairly.
- ◆ Collect and allocate revenues as required by law.
- ◆ Assess and allocate property values as required by law.
- ◆ Educate and assist tax- and feepayers to comply voluntarily, while minimizing their compliance burden.
- ◆ Provide high-quality customer service, using well-qualified staff and state-of-the-art technology.
- ◆ Achieve program objectives at the lowest possible cost.

STATE BOARD OF EQUALIZATION

The Honorable Gray Davis
Governor of California
March 1999

Dear Governor Davis:

On behalf of the Members and staff of the State Board of Equalization, I am pleased to submit to you our Annual Report for the fiscal year 1997-98.

Board-administered programs yielded more than \$33 billion for state and local programs this fiscal year. More than 36 percent of total state revenue came from these funds. Counties, cities, and special districts also received essential revenue. The Board collected over \$10 billion that benefited local governments in 1997-98.

The 1997-98 Annual Report contains further information on Board-administered programs and revenue, improvements in taxpayer compliance and taxpayer services, and significant court decisions, legislation, and regulations.

While our report focuses on revenue and program information, I would like to take this opportunity to recognize the hard-working men and women whose performance is embodied in every page. Their professionalism and dedication ensure that our state's tax laws are administered in a fair, effective, and efficient manner. They deserve our thanks and gratitude for another successful year serving the people of California.

We are looking forward to working together with you as we move into the twenty-first century. We hope that our annual report will prove a useful resource as you plan for the future of our great state.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "E. L. Sorensen, Jr.", with a stylized flourish at the end.

E. L. Sorensen, Jr.
Executive Director

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**TAXES AND FEES ADMINISTERED BY THE
BOARD OF EQUALIZATION, 1997-98, Summary Chart**

From its rocky shores to its high deserts, California is blessed with great scenic and biological diversity. Taxes paid by California residents and businesses contribute to the restoration, protection, and enhancement of the state's rich natural heritage. The illustrations in this report celebrate the beauty and diversity of California's landscapes.

PROFILE

The State Board of Equalization collects taxes and fees that provide more than 36 percent of the annual revenue for state government and essential funding for local government. In fiscal year 1997-98 taxes and fees administered by the Board produced \$33.17 billion for programs supporting education, health care, public safety, transportation, social services, housing, and natural resource management programs.

The Board is responsible for the administration of the state's sales and use, fuel, alcohol, tobacco, and other taxes, and for the collection of fees that fund specific state programs. More than one million businesses are registered with the agency.

In addition to administering key revenue programs, the Board plays a significant role in California property tax assessment and administration. It also acts as the appellate body for franchise and personal income tax appeals.

TAX PROGRAMS, 1997-98

Sales and Use Tax Programs

- Sales and Use Tax

- Bradley-Burns Uniform Local Sales and Use Tax

- District Transactions (Sales) and Use Tax

Special Tax and Fee Programs

- Insurance Tax

- Alcoholic Beverage Tax

- Cigarette and Tobacco Products Tax

- Emergency Telephone Users Surcharge

- Energy Resources Surcharge

- Integrated Waste Management Fee

- Tire Recycling Fee

- Motor Vehicle Fuel License Tax

- Use Fuel Tax

- Diesel Fuel Tax

- Interstate User Tax

- Underground Storage Tank Maintenance Fee

- Oil Spill Prevention and Administration and Oil Spill Response Fees

- Childhood Lead Poisoning Prevention Fee

- Hazardous Substances Tax

- Occupational Lead Poisoning Prevention Fee

Property Tax Programs

- County Assessment Standards Program
- State-Assessed Property Program
- Timber Yield Tax
- Private Railroad Car Tax

Tax Appellate Program

- Personal Income Tax
- Taxpayers' Bill of Rights Law
- Bank and Corporation Tax Law
- Senior Citizens Property Tax Assistance and Postponement Law

A foldout chart inside the back cover of this report lists revenues and other comparative information for revenue-producing tax and fee programs administered by the Board.

HISTORY

The Board of Equalization, created by constitutional amendment in 1879, was originally charged with responsibility for ensuring statewide equality and uniformity in county property tax assessment practices. As the state's need for revenue to support programs and services grew, the agency assumed a broader role.

In 1911, a voter-approved constitutional amendment directed the Board to levy four new taxes, including insurance and corporation franchise taxes. The most significant change in the Board's duties came in 1933, when the tremendous drop in property tax revenues brought on by the Great Depression led to the creation of the sales tax. The complementary use tax, established in 1935, was intended to protect California businesses from tax-free, out-of-state competition. Since that time the Board has been given the responsibility for administering a number of additional business and property taxes.

GOVERNANCE

The five members of the Board, who serve concurrent four-year terms, constitute the nation's only elected tax commission. Four members are elected by district. The State Controller, elected at large, serves as the Board's fifth member. Three of the 1997-98 board members and the state controller assumed office in January 1995 following their election in November 1994. The acting member for the Fourth District assumed office in January 1997 following the resignation of the elected district member. Board member biographies begin on page 6.

The Board's executive director, appointed by the Board members, directs the nearly four thousand agency employees who carry out the Board's mission, goals, and directives.



Oak woodland

BOARD RESPONSIBILITIES

The primary responsibilities of the Board are to

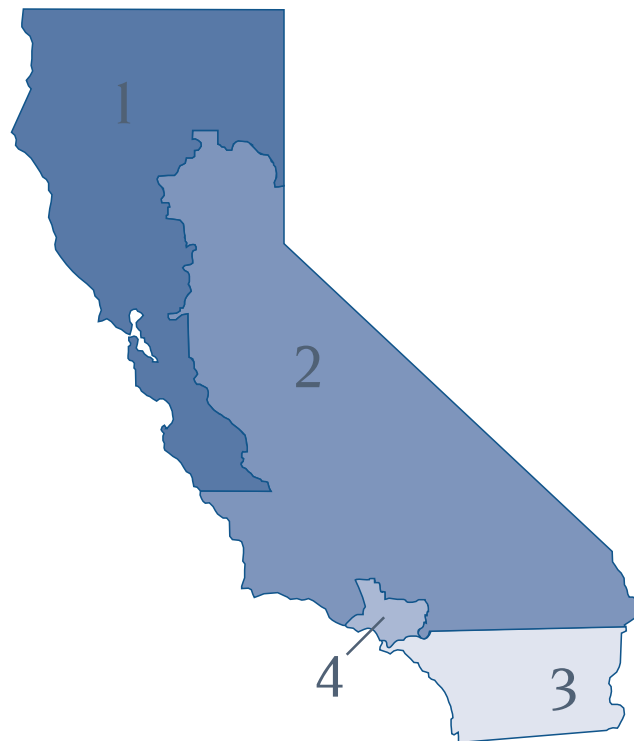
- ◆ Adopt rules and regulations clarifying the laws it administers;
- ◆ Act as an appellate body for the review of property, business, and income tax determinations;
- ◆ Administer agency programs; and
- ◆ Determine the assessed value of railroads and specified privately-held public utilities, including gas, electric, and telephone companies.

In carrying out these responsibilities, the Board

- ◆ Serves as the appellate body in final actions of the Franchise Tax Board for the state's Bank and Corporation Franchise Tax, the Personal Income Tax, and the Senior Citizens Property Tax Assistance laws. In this capacity, the Board issues opinions that interpret and define California's income tax laws.
- ◆ Prescribes the state's property tax regulations and issues directives to guide property taxpayers, county assessors, and county assessment appeals boards.
- ◆ Considers petitions by taxpayers regarding sales and use taxation, business tax matters, and the Insurance Tax Law.
- ◆ Considers appeals of assessments made by county assessors on lands, water rights, and certain improvements on properties owned by local governments but located outside their boundaries.
- ◆ Develops and adopts capitalization rates to be used in valuing state-assessed utilities.
- ◆ Classifies unitary and nonunitary properties of public utilities and determines the property values of each assessee for local property taxation.

- ◆ Oversees revenue collection and program operations for excise tax and environmental fee programs administered in cooperation with other state agencies.
- ◆ Fixes the 911 emergency telephone users surcharge rate determined by the Department of General Services.
- ◆ Studies the operations of individual county assessor offices to determine their effectiveness.
- ◆ Prescribes property tax forms and publishes handbooks for assessors' use.
- ◆ Sets the energy resources surcharge rate.
- ◆ Publishes a *Business Taxes Law Guide* and advisory tax publications for specific types of businesses to help them comply with tax law requirements.
- ◆ Publishes a *Property Taxes Law Guide* for use by county officials in administering the property tax laws and for use by taxpayers.

CALIFORNIA EQUALIZATION DISTRICTS





Whitney Range, Alabama Hills

MEETINGS

Public Board meetings offer taxpayers the opportunity to directly participate in the formulation of rules and regulations adopted by the Board and to observe the members as they carry out their official duties. Meetings are held throughout the year, approximately two to three weeks apart. Monthly meetings are held in Sacramento and additional meetings are held as necessary in other California cities. In 1997-98 the Board met in Sacramento, Culver City, and San Diego.

In addition, special hearings held each year allow taxpayers to make direct comments and suggestions regarding Board-administered laws and programs. For information regarding the 1997 hearings, please see page 47.

This year the Board completed further revisions of its *Rules of Practice*, the regulations governing the conduct of Board appeals and hearings. The new rules provide better guidance for taxpayers and tax practitioners and help streamline the appeals process.

MEMBERS OF THE BOARD



District One

Johan Klehs won election to the Board of Equalization in 1994, representing the twenty-six counties of Northern California's District One. He served as chair of the Board in 1995 and 1996 and vice-chair in 1997 and 1998. During that time, Johan directed the agency to crack down on the "underground economy" and led the successful effort to establish the Customer and Taxpayer Services Division. Prior to his election to the Board, Johan served for twelve years in the California State Assembly. As chair of the Assembly's Revenue and Taxation Committee, Johan was a vigorous advocate for tax fairness. Johan was

born in 1952 to German immigrant parents and grew up in San Leandro. He earned B.A. and Master of Public Administration degrees from California State University, Hayward, and later attended Harvard University's Kennedy School of Government. In 1978, Johan became the youngest person ever elected to the San Leandro City Council. His major accomplishments were affordable housing construction and city charter reform.



District Two

Dean Andal won election to the Board of Equalization in 1994, representing District Two, and served as chairman during 1998. During his



first term, Dean was a leader in streamlining government services and improving agency efficiency. His actions led to closure of 17 Board offices in the second district, saving taxpayers more than \$40 million over a five-year period. Dean is also credited with creating innovative Taxpayer Service Centers which provide one-stop public access to the Board of Equalization, Employment Development Department Tax Division, and Franchise Tax Board. A resident of the Second Equalization District for nearly 30 years, Dean currently lives in Stockton with his wife Kari and son Patrick. He attended San Joaquin Delta College in 1980 and earned a bachelor's degree from the University of California at San Diego in 1983. Prior to his election to the Board, Dean represented San Joaquin County's 17th Assembly District, where he served as chief budget negotiator for the Republican Caucus.

MEMBERS OF THE BOARD

District Three

Ernest J. Dronenburg, Jr. has been an elected southern California representative on the Board since 1979. Ernie has served as Board chairman five times and served one term as chairman of the Franchise Tax Board. He spent seven years on the staff of the Board and is the only agency employee ever elected as a Board member. The architect and sponsor of the California Taxpayers' Bill of Rights, Ernie is the founder and president of the Border States Caucus, past president of the Federation of Tax Administrators and the Western States Association of Tax Administrators, and a member of the Internal Revenue Commissioner's Advisory Group and the National Commission on Restructuring the IRS. He was the recipient of the 1998 "Distinguished Public Servant" award given by the national Tax Executives Institute. Ernie has lived in the San Diego area since 1946. He is a graduate of San Diego State University with a degree in Business Administration/Finance and is a Certified Property Appraiser.



District Four

John Chiang serves approximately eight million residents of Los Angeles County. John began his career as a Tax Law Specialist with the Internal Revenue Service and later served as an attorney with the Office of the State Controller. During his tenure with the Board, he has promoted public-private partnerships through community outreach and taxpayer education. John organized the first joint Board of Equalization, Franchise Tax Board, and IRS seminar for nonprofit organizations and partnered with the Los Angeles County Assessor's

Office to hold a tax seminar for religious organizations. He also organized business and labor forums on fighting tax evasion in the "underground economy." John is a graduate of Georgetown University Law Center and an honors graduate of the University of South Florida with a degree in finance. His community service awards include the State Bar of California Board of Governors' Pro Bono Service Award, the Asian-Pacific American Labor Alliance Community Service Award, and the Taiwanese-American Citizens League Community Service Award.

MEMBERS OF THE BOARD



State Controller

Kathleen Connell is California's 28th controller, elected in 1994 after a successful career in business, education, and finance. She serves as a member of the Board of Equalization and as the chair of the Franchise Tax Board. She is a member of more than fifty policy-making boards and commissions, including the Public Employees' Retirement System, the State Teachers' Retirement System, and the State Lands Commission. Connell's leadership and commitment to more efficient, more effective state government is making a difference: creating good jobs, improving education, and protecting tax-

payers from waste and fraud. Her innovative reforms are replacing business as usual with a new dedication to making government work better at less cost. Connell's aggressive audits of state programs have uncovered more than one billion dollars in potential savings. Connell is the first woman to serve as California controller and the first controller to regularly publish independent economic forecasts.

HIGHLIGHTS

REVENUE

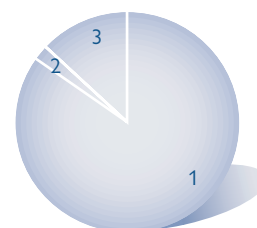
Board revenues grow nearly six percent over 1996-97

Board of Equalization revenues reached \$33.17 billion this fiscal year. This was an increase of \$1.86 billion, or 5.9 percent, over the 1996-97 total of \$31.31 billion. The largest component of Board revenue — sales and use taxes — grew by \$1.82 billion, or 6.9 percent, to \$28.14 billion.

Revenues increase for local jurisdictions

Board collections on behalf of California cities and counties increased by 6.4 percent in 1997-98 and totaled \$4.44 billion. Taxes collected for special tax districts rose by 11.8 percent to reach \$2.37 billion. The large year-to-year increase in district tax revenue primarily resulted from implementation of the Santa Clara County Transactions and Use Tax, which began on April 1, 1997.

1997-98
Board Revenues
Billions of Dollars



1. Sales and use taxes \$28.14
2. Property taxes \$0.78
3. Other taxes and fees \$4.24

Fuel tax revenues expand while receipts for alcohol and tobacco taxes decline

In 1997-98, revenues from state fuel taxes grew by 0.7 percent over the previous year's total, providing \$2.88 billion for transportation programs. Alcoholic beverage tax revenue declined slightly this fiscal year, dropping from \$271.1 million to \$271 million. Cigarette tax collections renewed their pre-1996-97 downward trend, dropping by \$20.3 million, or 3 percent, to reach \$647.3 million.

TAX DISTRICT AND RATE CHANGES

Two special transactions and use tax districts expire December 31, 1997

Two special tax districts — each of which imposed a 0.5 percent transactions (sales) and use tax — expired on December 31, 1997:

- ◆ San Benito County General Fund Augmentation
- ◆ Tulare County Transactions and Use Tax

The total sales and use tax rate in the two counties dropped to 7.75 percent and 7.25 percent, respectively.

LEGISLATION

More information on these and other bills is found in the tax program chapters of this report.

Property Taxes

Parent-child property tax benefit no longer forfeited due to missed deadlines

Senate Bill 542 (Stats. 1997, ch. 941) permits a parent-child change in ownership exclusion to be granted any time a claim is filed, regardless of when the property transfer occurs. The exclusion allows the base year value of property to stay the same despite the transfer of ownership from parent or grandparent to child.

Board sponsors consumer protection legislation to combat misleading property tax-related solicitations

Assembly Bill 1178 (Stats. 1997, ch. 249) protects homeowners from misleading solicitations by placing restrictions on companies who offer to file, for a fee, assessment appeals or homeowners' exemption claims.

Sales and Use Taxes

Board sponsors bill to initiate managed audit program pilot

Senate Bill 1104 (Stats. 1997, ch. 686) authorized the Board to establish a managed audit program that allows eligible taxpayers to perform an audit of their own books and records with limited guidance from agency staff. In exchange, participating taxpayers will receive a fifty-percent reduction in interest due if the audit results in a tax liability.

New Use Tax Direct Payment Permit established to ensure proper allocation of local use tax

To ensure that local use tax is allocated to the jurisdiction where property will be used, Senate Bill 110 (Stats. 1997, ch. 702) directed the Board to establish a *Use Tax Direct Payment Permit* and procedures for specified taxpayers who agree to self-assess and pay use tax directly to the Board.

Counties authorized to levy transactions and use taxes to support public library programs

Senate Bill 154 (Stats. 1997, ch. 88) authorizes counties, under certain conditions, to levy a transaction and use tax at the rate of 0.125 percent or 0.25 percent to support local public library programs.

Legislature enacts Taxpayer Bill of Rights for the Bradley-Burns Uniform Local Sales and Use Tax Law

Senate Bill 110 (Stats. 1997, ch. 702) established a Bill of Rights for the Bradley-Burns Uniform Local Sales and Use Tax Law, extending certain rights to local jurisdictions that are authorized to impose local sales and use tax.

Special Taxes

Legislation establishes equity in diesel fuel taxation

Assembly Bill 1269 (Stats. 1997, ch. 618) was enacted to ensure that interstate carriers who travel on California roads pay the same rate of tax on diesel fuel use whether they buy fuel in this state or elsewhere. The bill establishes that the tax rate applicable to fuel purchased outside the state and used in California shall include an amount equivalent to the statewide sales tax applicable to California diesel purchases.



Merced River

TAXPAYER SERVICES

New interactive technology provides 24-hour seller's permit verification

During this fiscal year, Board staff installed new easy-to-use technology for interactive voice response and Internet services. The first applications available under the new systems enable vendors to use their touch-tone phones or personal computers to verify the seller's permit status of businesses who wish to make purchases for resale.

New system enables businesses to pay sales and use tax by credit card

In the spring of 1998 the Board established a new system that enables taxpayers to use their NOVUS credit cards to pay amounts due with their sales and use tax returns. The new service is available 24 hours a day, seven days a week.

New procedures streamline Franchise Tax Board appeals

In 1997-98, Board staff assumed responsibility for determining whether the elected Board has jurisdiction in specific taxpayer appeals of Franchise Tax Board decisions. The new procedure reduces the time required for jurisdiction determinations by 75 percent while providing taxpayers and the FTB with a cost-effective and impartial review.

Video conferencing pilot conducted for tax appeals hearings

The Board conducted a pilot project this year to evaluate the effectiveness of using video conferencing technology for tax appeals hearings. The project electronically connected taxpayers with Board appeals attorneys and auditors.



Brokeoff Mountain

COOPERATIVE VENTURES

Board provides POST-certified cigarette tax evasion training

Following certification by the Commission on Peace Officer Standards and Training (POST), the Board presented its first certified class in cigarette tax evasion investigation. Participants in the class included representatives of the Alcoholic Beverage Control Board, the Bureau of Alcohol, Tobacco, and Firearms, industry, the Folsom Police Department, and the National Coalition Against Crime and Tobacco Contraband.

ENHANCING OPERATIONS

Strategic planning process focuses Board direction

Over the past year, the Board developed a new, updated *Strategic Plan*. The new *Plan* better reflects today's business environment, emphasizes customer service, and clarifies the agency's business and technology direction for the next five to seven years.

Performance audit improves agency operations

The Board contracted with independent auditor KPMG Peat Marwick to conduct a performance audit of seven areas of agency operation. Implementation of the audit recommendations began this fiscal year.

New technology governance structure enhances IT planning efforts

The Board's strategic planning effort and performance audit have led the agency to establish a three-tiered information technology governance structure. The key component, an executive-level Technology Governance Group, has oversight responsibility for agencywide technology policy, plans, proposals, and projects. The Group ensures that the Board's technology efforts strategically align with its mission and goals.

Board focuses on Integrated Revenue Information System (IRIS) and the Year 2000 effort

The Year 2000 project made significant progress towards the latter part of the fiscal year and is scheduled for completion by July 1999. The new agencywide Integrated Revenue Information System, which will replace most of the Board's critical computer systems in fiscal year 1998-99, is designed to be Y2K compliant. Implementation of the new system will enable the Board to avoid the substantial effort that would otherwise be required to update its aging computer systems.

PROPERTY TAXES

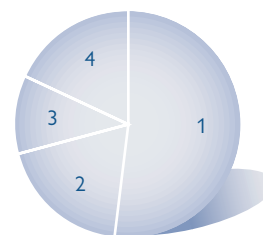
REVENUES

Fiscal year 1997-98 California property tax levies totaled \$20.46 billion, an increase of 3.67 percent from the previous year's total of \$19.74 billion. County-assessed property values increased \$93 billion during 1997-98 to reach \$1.975 trillion for the 1998-99 tax year.

State-assessed properties — primarily privately-owned public utilities and railroads — were valued by the Board at \$69.22 billion for the 1998-99 roll, a \$571 million increase from the values set for the 1997-98 roll. In 1998-99, the state's 58 counties will receive more than \$754 million in local property tax revenue from state-assessed properties.

For detailed property tax information, please see the Appendix, pages A-4 through A-22.

General
Property Tax Dollar
1997-98
Average State Allocation



1. School purposes \$0.52
2. Counties \$0.19
3. Cities \$0.11
4. Other \$0.18

PROGRAMS

The Board of Equalization oversees the assessment practices of the state's 58 county assessors, who are charged with establishing values for approximately 12 million properties each year. In addition, the Board assesses the property of regulated railroads and specified public utilities, and assesses and collects the private railroad car tax and the timber yield tax.

General Property Taxes

In fiscal years 1994-95 through 1996-97, the value of California's county-assessed properties increased an average of just 1.1 percent per year. This relatively low growth rate was caused by stagnant or declining real estate values and low construction activity, reflecting the effects of the 1990s recession, as well as constitutional limits on annual assessment increases. However, as the state's economy improved, California building activity and home prices began to increase in 1996 and rose sharply in 1997. As a result, total statewide county-assessed property values rose 2.8 percent in fiscal year 1997-98 and 4.9 percent in 1998-99.

Under the constraints imposed by Proposition 13, passed by California voters in 1978, property tax cannot exceed one percent of fair market value, with limited exceptions. Generally, reappraisal of real property at current market value can occur only when there is a change in ownership or new construction. Under Proposition 13, value increases for individual properties are held to a maximum of two percent per year, with an annual inflation adjustment based on the previous calendar year's California Consumer Price Index for all items.

State-Assessed Properties

In accordance with article XIII, section 19 of the California Constitution, the Board of Equalization assesses certain public-utility properties and allocates the assessed values among the counties where the properties are physically located. Each county taxes the allocated value of state-assessed properties at the same rate as locally-assessed properties.

State-assessed properties include:

- ◆ Pipelines, flumes, canals, ditches, and aqueducts lying within two or more counties
- ◆ Property (except franchises) owned or used by regulated railway, telegraph, or telephone companies; railroad car companies operating on railways in the state; and companies transmitting or selling gas or electricity

Private Railroad Car Tax

Owners of private railcars pay the private railroad car tax on cars operated in California. For 1998-99, the Board billed 282 car companies for taxes totaling \$6.33 million. As required by the Federal Railroad Revitalization and Regulatory Reform Act, the Board applied an assessment ratio of 86.12 percent to the value of rail transportation properties, including private railroad cars, for the 1998-99 assessment year. Revenues from the private railroad car tax, deposited in the state's General Fund, totaled \$6.18 million in fiscal year 1997-98.

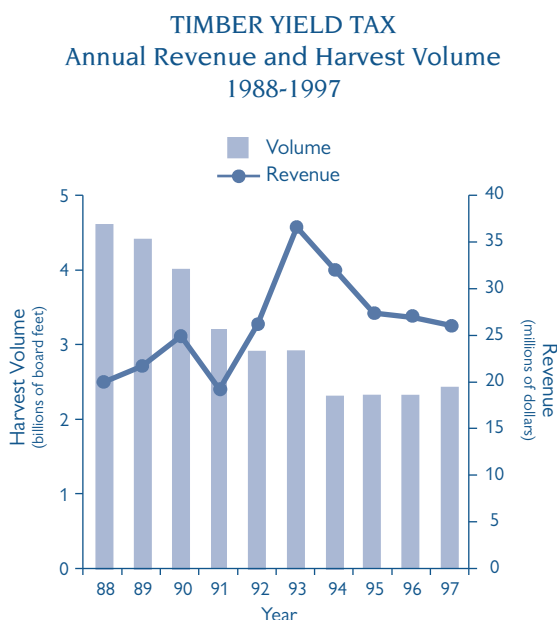
Additional information on the private railroad car tax can be found in the Appendix, on pages A-21 and A-22, and in the foldout chart inside the back cover of this report.

Timber Yield Tax

Timber owners pay the 2.9 percent timber yield tax based on the immediate harvest value of trees harvested for wood products. Revenues are returned to the counties where the timber was harvested. Calendar year 1997 revenues totaled \$26.28 million.

While 1997 harvest volume grew by 5.58 percent to reach 2.4 billion board feet, harvest value for the year declined 5.78 percent, to \$868 million. As of June 30, 1998, there were nearly 3,200 active program registrants, compared to 3,500 timber owners registered at the end of the previous fiscal year.

Additional information on the timber yield tax can be found in the Appendix, on page A-20, and in the foldout chart inside the back cover of this report.





Oak savannah near Williams

OPERATIONS

Policy, Planning, and Standards Division

The Policy, Planning, and Standards Division develops property tax assessment policies and informational materials to guide county assessors and assessment appeals boards. The Division provides technical expertise and guidance to assessors, the Legislature, and others concerned with property tax assessment matters, and prescribes the content of property tax forms and statements to ensure statewide uniformity. The Division is also responsible for maintaining all property tax-rate area maps in California.

In 1997-98, Policy, Planning, and Standards Division staff

- ◆ Issued 75 advisory Letters to Assessors
- ◆ Responded by telephone to more than 6,900 outside inquiries regarding property tax matters and prepared more than 1,000 additional written responses
- ◆ Identified more than 1,000 letters and memorandums for annotation and future publication in the Board's Property Taxes Law Guide
- ◆ Reviewed 5.1 million homeowners' exemption claims, revealing nearly 15,500 duplicate claims and saving \$1.1 million in state tax subvention payments to counties
- ◆ Reviewed 10,400 welfare exemption claims involving more than 24,800 properties
- ◆ Conducted 31 formal courses and workshops attended by nearly 1,000 appraisers
- ◆ Sent 13,600 questionnaires to legal entities including corporations and partnerships, resulting in the reassessment of 4,400 parcels owned by more than 280 legal entities

- ◆ Continued to maintain more than 11,000 revenue district boundaries that encompass 57,300 Tax Rate Areas, helping to ensure the proper allocation of local tax revenue to counties, cities, and special tax districts

Valuation Division

The Valuation Division provides the elected Board with value indicators for state-assessed properties, described on page 16, and allocates the Board-determined value of those properties to the counties where the properties are located. The Division also audits the financial records of utility and transportation companies for property tax purposes, and has responsibility for the valuation of private railroad cars located in California. Since 1977, Valuation Division audits have recovered escape assessments of more than \$7 billion, yielding additional property tax revenue for local governments.

County Property Tax Division

The County Property Tax Division conducts periodic Assessment Practices Surveys of each county assessor's office and issues resulting reports to the governor, senate, assembly, attorney general, county assessor, county board of supervisors, county grand jury, county assessment appeals board, and other county assessors. In 1997-98, final survey reports were published for five counties: Kings, Marin, Riverside, San Benito, and Ventura.

The Division also collects and administers the state's timber yield tax, described on page 16. Timber Tax Section staff work on proposed property tax rules, pertinent legislation, and timberland values used by county assessors. This year the section developed a new publication, the *Guide to the California Timber Yield Tax*, which explains the timber yield tax program and provides detailed instructions for completing tax returns.

APPEALS

Local assessment appeals boards review most appeals of county-assessed property values. However, the elected members of the Board hear appeals of state-assessed property values, appeals filed under the Timber Yield Tax and Private Railroad Car Tax laws, appeals of welfare exemption denials, and appeals made by local governments concerning assessments of properties they own which are located outside their boundaries. For information regarding appeals filed with the Board in 1997-98, see "Appeals," on page 41.

COURT DECISIONS

Local Assessment Appeals Board Rules

Revenue and Taxation Code section 1606, which provides for an exchange of information during the assessment appeals process, does not preempt a county's local rule governing requests for information by the assessor if the rule reflects discovery procedures authorized by another statute.

State Board of Equalization v. Cenicerros (1998)
63 Cal.App.4th 122

Assessor's Presumption of Correctness

If the presumption that the assessor properly performed his or her duty and fairly assessed all properties operates against the applicant, and an appeals board finds that the applicant has failed to present legally sufficient evidence of assessment inequality, the burden of proof does not shift and the assessor may stand on the presumption.

Fujitsu Microelectronics, Inc. v. Assessment Appeals Board (1997) 55 Cal.App.4th 1120

45-Day Notice of Local Assessment Appeals Hearing

Revenue and Taxation code section 1605.6 requires an assessment appeals board to provide at least 45-days advance notice for an assessment appeals hearing. If a hearing is scheduled on shorter notice and then continued to a date more than 45 days from the date of the notice, the continuance does not constitute compliance with the statute and the appeal proceeding is void.

International Medication Systems, Inc. v. Assessment Appeals Board of Los Angeles County (1997)
57 Cal.App.4th 761

Repeated Short-Term Uses Are Possessory Interests

Short-term use of a city's convention and cultural facilities are a taxable "possessory interest" when use permits are issued to the same users on more than one occasion.

City of San Jose v. Carlson (1997)
57 Cal.App.4th 1348

Governmental Restrictions Affecting Value

Revenue and Taxation Code section 402.1 requires the assessor to consider governmentally imposed restrictions when valuing property for assessment purposes, even if the limitations are not immediately enforceable. Therefore, when a lessee performs ongoing environmental remediation measures affecting value in the current year, the assessor must consider the measures' effect on value even though they were not legally enforceable until the end of the leasehold term.

Dominguez Energy v. County of Los Angeles (1997)
56 Cal.App.4th 839

Time for Appealing Nonjudgmental Base Year Value

Under Revenue and Taxation Code section 51.5, subsection (a), the assessor may at any time correct nonjudgmental errors that occur in establishing base year values. Therefore, the taxpayer's right to appeal the base year value established by the assessor is not restricted by the four-year time limit in Revenue and Taxation Code section 80, subsection (a)(3).

Sunrise Retirement Villa v. Dear (1997)
58 Cal.App.4th 948

Taxpayers Entitled to Opinion of Value; Low-Income Housing Valuation

Taxpayers whose applications for reduction in assessment were not heard within two years of filing are entitled to have their opinions of value enrolled, but they may not recover refunds for the years in which refund claims were not timely filed. In valuing low-income housing projects, the assessor is not required to discount assumed mortgages to their cash equivalents when deriving a capitalization rate using the band-of-investment method.

Mission Housing Development Company v. City and County of San Francisco (1997) 59 Cal.App.4th 55

Correction of Base Year Values and Claims for Refunds

Although Revenue and Taxation Code section 51.5 allows taxpayers to apply for reduction of a property tax base year value for up to four years after the value is initially set, they may only claim refunds for the year in which the appeal is made and for subsequent years.

Metropolitan Culinary Services, Inc. v. County of Los Angeles (1998) 61 Cal.App.4th 935

Enforceable Cable Television Rate Controls and Fair Market Value

Rate protection provisions in a franchise agreement that restrict the amounts a cable television operator charges its customers are enforceable restrictions upon the property and must be considered in determining fair market value.

CAT Partnership v. County of Santa Cruz (1998) 63 Cal.App.4th 1071

LEGISLATION

Vineyards Infested By Pierce's Disease

Permits county boards of supervisors to authorize base year value transfers for grapevines replanted due to Pierce's Disease infestation.

Assembly Bill 122, Chapter 607, Statutes of 1997; operative October 3, 1997.

Elderly and Disabled Intercounty Base Year Value Transfers

Extends beyond January 1, 1999, the provision that allows elderly and disabled persons to transfer base year value to replacement homes located in another county.

Assembly Bill 240, Chapter 227, Statutes of 1997; operative January 1, 1999.

State Loan Program For County Property Tax Administration

Extends to fiscal year 2000-01 the Department of Finance-administered State-County Property Tax Administration Program, which loans counties \$60 million annually.

Assembly Bill 719, Chapter 420, Statutes of 1997; operative September 22, 1997.

Consumer Protection Measures, Property Tax-Related Solicitations

Protects homeowners from misleading solicitations by placing restrictions on companies which offer to file, for a fee, assessment appeal or homeowners' exemption claims. In part, the bill

- ◆ Specifies that firms which offer to file, for a fee, assessment appeal applications using residential property and homeowners' exemption claim forms may not collect the fee until after the form has been filed.

- ◆ Requires that the outer envelope from the company state that the mailing is not from a governmental agency.
- ◆ Requires that the solicitation state that the offer is not being made by a governmental agency and that a fee is not required to file the document.
- ◆ Specifies the types of information contained in the solicitation that would be considered misleading or untrue.
- ◆ Limits to \$25 the fee charged by firms who make solicitations to taxpayers offering to file homeowners' exemption claim forms.

Assembly Bill 1178, Chapter 249, Statutes of 1997; effective January 1, 1998.

Opinions Of Value Used In Assessment Appeals

For residential real properties with an assessed value of less than one million dollars, provides that opinions of value prepared for a fee for a property assessment appeal (1) must be designated an appraisal report prepared in accordance with standards specified in section 11319 of the Business and Professions Code, or (2) must provide a disclaimer that the opinion value is not an appraisal report prepared in accordance with the Uniform Standards of Professional Appraisal Practice.

Assembly Bill 1319, Chapter 182, Statutes of 1997; effective January 1, 1998.

Possessory Interests in Fairgrounds

Permits county boards of supervisors to authorize exemption of possessory interests in fairgrounds if the value of the possessory interest is less than \$50,000.

Senate Bill 33, Chapter 106, Statutes of 1997; effective January 1, 1998.

Omnibus Measure

Parent-child transfers

Permits a parent-child change in ownership exclusion to be granted any time a claim is filed, on a prospective basis, regardless of when the property transfer occurred.

Exemptions: uniform final filing date

Creates a uniform deadline of February 15 for filing a claim, if one is required, to receive most property tax exemptions.

Documented vessels: final filing date

Moves forward the documented vessel final filing date to February 1 and, for late filings, to August 1.

Homeowners' exemption: final filing date

Moves forward the homeowners' exemption final filing date to February 15.

Intracounty pipeline lands and rights-of-way

Allows assessors to combine into a single assessment intracounty pipeline lands and rights-of-way assessment segments that are owned by the same person.

Williamson Act contracts: final filing date

Advances the final date for filing proposals to establish Williamson Act preserves to conform to the January 1 lien date.

Market value reduction appeals: filing deadline

Permits taxpayers, in specified instances, to file market value reductions appeals after the September 15 deadline.

Appeal application penalty of perjury statement

Codifies language currently contained in the state-prescribed assessment appeals application.

Refund action on escape assessments

Permits taxpayers to bring an escape assessment refund action in superior court even if they have not yet paid the total taxes due on that assessment because they are paying under a four-year installment payment plan.

Senate Bill 542, Chapter 941, Statutes of 1997; effective January 1, 1998

Northridge Earthquake

For property damaged or destroyed in the Northridge earthquake, increases from 3 years to 5 years the period allowed to acquire or construct replacement property within the same county.

Senate Bill 594, Chapter 353, Statutes of 1997; effective August 26, 1997.

Omnibus Measure**Inflation measurement**

Establishes that for property tax purposes, October of the current fiscal year will be the final month of the 12-month period used for calculating the annual change in the California Consumer Price Index.

Base year value transfers: homes on acreage

Clarifies the application of the “area of reasonable size” standard to residential properties qualifying for base year value transfers.

Timberland valuation date

Moves forward the date the Board certifies timberland values and the date of valuation to conform with the change in the lien date to January 1.

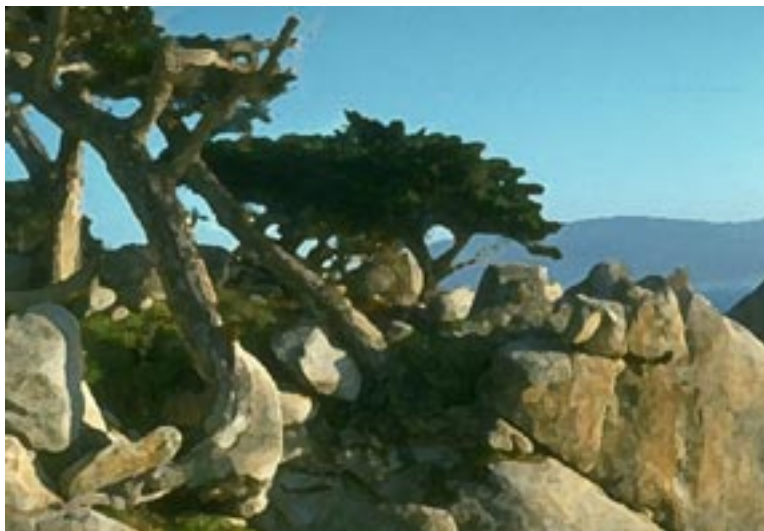
Annual value notices

Requires that annual notices that will be sent to taxpayers (beginning in January 1999) to notify them of a changed assessment due to a decline in value must also note the current factored base year value of the property.

Assessment appeal applications, final filing date

Modifies the filing period for an application for a reduced assessment to provide for situations where county board offices may be closed on the final filing date or prior to 5:00 P.M. on the final filing date for reasons other than an official holiday or a weekend.

Senate Bill 1105, Chapter 940, Statutes of 1997; effective January 1, 1998.



Monterey coast

Installment Payment Fee

Permits the tax collector to charge a fee for the actual cost of processing a request to pay an escape assessment in installments.

Senate Bill 1107, Chapter 546, Statutes of 1997, effective January 1, 1998.

REGULATIONS

Taxable Possessory Interests

Rule 20, *Taxable Possessory Interests*, was added to implement, interpret, make more specific, and otherwise carry out the greatly revised definition of taxable possessory interests made by SB 657 (Stats. 1995, ch. 496), which amended Revenue and Taxation Code section 107. SB 657 codified existing principles used by the courts in resolving taxable possessory interest litigation between taxpayers and assessors.

Rule 21, *Possessory Interest Definitions*, was revised to delete the portions in conflict with the new Rule 20 and the amended Revenue and Taxation Code section 107.

Title 18, California Code of Regulations, sections 20 and 21; effective May 6, 1998.

Fixtures

Rule 122.5, *Fixtures*, was amended to provide guidance to county assessors regarding the classification of automated teller machines (ATMs), by identifying types of ATMs in use, providing that installation conditions are relevant to classification, and stating definitions that the assessor must apply.

Title 18, California Code of Regulations, section 122.5; effective December 31, 1997.

Examples of Improvements

Rule 124, *Examples*, was amended to revise example lists and to eliminate certain examples to be consistent with changes in technology and business practices over the last thirty years.

Title 18 California Code of Regulations, section 124; effective June 5, 1998.

Trusts

Rule 462.160, *Change in Ownership — Trusts*, was revised to distinguish between revocable and irrevocable trusts, to describe events that result in changes in ownership of real property, and to more fully describe specific transfers of real property and transfer of ownership interests in legal entities.

Title 18 California Code of Regulations, section 462.160; effective February 20, 1998.

Interspousal Transfers

Rule 462.220, *Change in Ownership — Interspousal Transfers*, was revised to add categories of interspousal transfers to those excluded from change in ownership, to further clarify how Revenue and Taxation Code sections 63 and 64 (d) apply to interspousal transfers, and to clarify portions of the existing rule.

Title 18, California Code of Regulations, section 462.220; effective February 20, 1998.

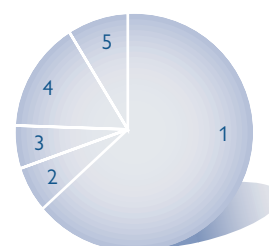
SALES & USE TAXES

REVENUES

In 1997-98, total California sales and use tax revenue reached \$28.14 billion, an increase of 6.9 percent from the previous year's total of \$26.32 billion. 1997-98 revenues included:

- ◆ \$21.33 billion from the 6 percent state sales tax, with
 - ◆ \$17.77 billion — 5 percent — allocated to the state General Fund,
 - ◆ \$1.78 billion — 0.5 percent — allocated to the state's Local Revenue Fund, and
 - ◆ \$1.78 billion — 0.5 percent — allocated to the Local Public Safety Fund.
- ◆ \$4.44 billion from the 1.25 percent Bradley-Burns Uniform Local Sales and Use Tax, allocated among all of the state's 58 counties and 470 cities.
- ◆ \$2.37 billion in special district transactions (sales) and use tax (rates vary by district).

Sales and Use Tax
Revenues
1997-98
Billions of Dollars



1. State general fund \$17.77
2. Local revenue fund \$1.78
3. Local public safety fund \$1.78
4. Bradley-Burns local tax \$4.44
5. Special district taxes \$2.37

1997-98 revenues allocated to the state general fund, \$17.77 billion, were 6.5 percent higher than revenues for 1996-97.

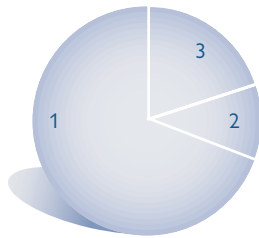
PROGRAMS

California's sales tax, paid by retailers engaged in business in the state, applies to all retail transactions except those specifically exempted by law. The use tax generally applies to the storage, use, or other consumption in this state of goods purchased from retailers in transactions not subject to the sales tax. Use tax also may apply to purchases shipped to a California consumer from another state.

The statewide rate for both the sales and use tax, unchanged since 1991, is currently 7.25 percent (combined 6 percent state rate and 1.25 percent local rate). The total sales and use tax rate is higher in areas where special transactions and use taxes are in effect.

As detailed above, sales and use taxes provide revenue to the state's General Fund, to local governments through specific state fund allocations, and to local jurisdictions.

Local Sales & Use
Tax Distributions
Billions of Dollars



1. Cities \$3.02
2. Counties \$0.46
3. County transportation tax \$0.87

Local Sales and Use Tax

The Board of Equalization collects the 1.25 percent Bradley-Burns Uniform Local Sales and Use Tax and allocates resulting revenue among all California cities and counties. For each sale, one-quarter percent of the 1.25 percent local tax is allocated to the county where the sale occurs and is used to fund transportation projects. The remaining one percent of the tax is allocated to the county or an incorporated city, generally depending on the location of the sale. City and county local tax allocations are detailed in Table 21A of the Appendix, beginning on page A-26.

Redevelopment Agencies

Between 1981 and 1994, cities were authorized to finance redevelopment projects revenue derived from the local sales and use tax, distributed under agreement to city redevelopment agencies. While this authority was repealed effective January 1, 1994, existing city ordinances were permitted to continue. Thirty-nine redevelopment projects in 28 California cities and counties were receiving sales and use tax revenue as of June 30, 1998.

District Transactions (Sales) and Use Tax

The Board of Equalization collects and distributes district transactions (sales) and use tax on behalf of voter-approved special tax districts established throughout the state. Revenues fund transportation projects, open space protection, hospitals, county services, public libraries, and schools.

At the beginning of the 1997-98 fiscal year, there were 32 special tax districts in the state, with rates ranging from 0.125 to 0.50 percent. Two tax districts expired at the end of December 1997 (see "Highlights," page 9).

Sales made by retailers engaged in business in a special tax district are subject to a total sales tax rate that includes the statewide rate of 7.25 percent and the applicable district tax rate. While the provisions of the Transactions and Use Tax Law are similar to state and local sales and use tax laws, significant differences do exist, including an exemption for sales shipped to a location outside the district for use in that location. There are also special requirements for sales of registered vehicles, aircraft, and undocumented vessels.

OPERATIONS

The Board encourages voluntary tax law compliance, offering sales and use tax assistance through its Sacramento headquarters and 26 field offices located across the state. Staff in Board offices in New York, Chicago, and Houston assist taxpayers who are located outside of California but engaged in business here.

The number of registered sellers decreased slightly in the fiscal year, totaling 967,858 as of June 30, 1998. The agency processed approximately 3.2 million sales and use tax returns in 1997-98.

Compliance Activities

Board compliance staff ensure that sellers properly comply with permit requirements, assist taxpayers in interpreting tax laws and regulations, and provide classroom instruction and individual assistance in the correct preparation of tax returns. In 1997-98, staff collected more than \$674 million in delinquent sales and use taxes.

Consumer Use Tax Section

Working closely with state and federal agencies, the Consumer Use Tax Section administers the use tax due on nondealer sales of vehicles, vessels, aircraft, and mobile homes, and on purchases identified on customs declarations. Fiscal year 1997-98 revenues of \$463.3 million included

- ◆ \$413.3 million collected by the Department of Motor Vehicles; and
- ◆ \$4.4 million collected by the Department of Housing and Community Development.

Overall consumer use tax collections were 6.6 percent higher than in 1996-97.



Golden Canyon, Death Valley

Audit Program

The Board maintains an effective audit program to ensure that businesses report neither more nor less tax than prescribed by law. The program audits approximately three percent of active accounts each year, concentrating on those considered most likely to be inaccurate in their tax reporting. In fiscal year 1997-98, the sales and use tax audit program disclosed net deficiencies of more than \$454.9 million. Taxpayers received more than \$57.1 million in sales and use tax refunds.

Areas of Taxpayer Noncompliance

To comply with requirements of the Taxpayers' Bill of Rights, each year the Board

- ◆ Identifies the areas of the Sales and Use Tax Law where taxpayer noncompliance is highest; and
- ◆ Classifies the types of businesses making errors.

Purchases made from out-of-state vendors without payment of use tax has been the most frequent area of taxpayer noncompliance for the past seven fiscal years. This year, nearly 27 percent of revenues derived from sales and use tax audits came from that category, making it the second-most costly area of taxpayer noncompliance. The most costly noncompliance area in 1997-98 was unsupported sales for resale, which accounted for more than 29 percent of all sales and use tax audit deficiencies.

The charts on the next page summarize the Board's findings on the types of taxpayer noncompliance for fiscal year 1997-98 and provide other tax compliance information required by the Taxpayers' Bill of Rights.

APPEALS

Taxpayers who disagree with Board audit results or other decisions regarding the application of sales and use tax may seek resolution through the Board's administrative appeals process. For information on appeals filed in 1997-98, see chapter 6, "Appeals," which begins on page 41.

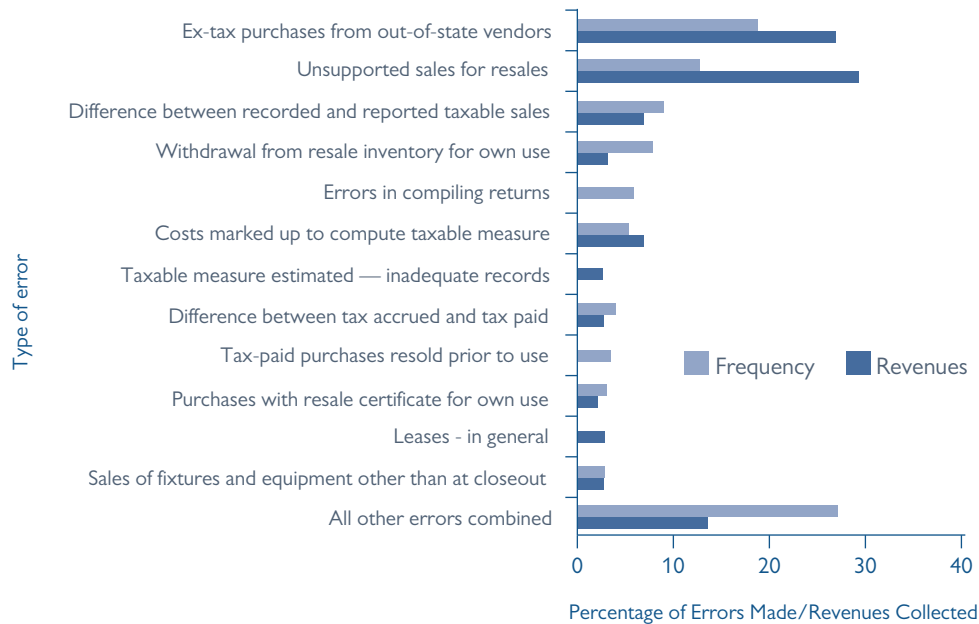
The agency also offers a settlement program as an alternative method of tax dispute resolution. In 1997-98, after review and comment by the state attorney general, the members of the Board approved 136 sales and use tax cases for settlement. The total settlement amount was \$8.9 million.

Analysis of Noncompliance, 1997-98

TYPES OF NONCOMPLIANCE, 1997-98

Frequency of error/revenues collected

Two bars are shown for types of errors ranking in the top ten for both frequency of error and revenues collected.



TYPE OF BUSINESS MAKING ERROR

Ranked by Revenues Collected

Type of Business	Percentage	1996-97 Rank
Manufacturers and Wholesalers of Electronics Equipment	22.75	2
Publishers, and Distributors of Light Industrial Equipment	12.09	1
Producers and Distributors of Heavy Industrial Equipment	4.65	3
Manufacturers and Wholesalers of Store and Office Equipment	4.12	7
Banks, Insurance Companies, and Business Services	3.89	5
Producers, Manufacturers, and Wholesalers of Drugs, Chemicals, and Allied Products	3.88	12
Construction Contractors and Sellers of Building Materials	3.66	4
Repair and Hand Trade Shops	3.17	9
Producers, Manufacturers, and Wholesalers of Farm, Tobacco, Alcoholic Beverage, Food, and Food Processing Equipment	2.97	19
Office, Store, and School Furniture and Equipment Stores	2.85	16
All Other Businesses	35.96	
Total	100.00	

COURT DECISIONS

Claim for Refund of Unconstitutional District Taxes

Purchasers but not retailers may file claims for refund of certain unconstitutional district taxes covered by a statutory refund scheme.

Cod Gas & Oil Co., Inc., v. State Board of Equalization (1997) 59 Cal.App.4th 756

Drop Shipments

The drop shipment rule in Revenue and Taxation code section 6007 is an alternative definition of "retail sale" and a seller must overcome the presumption that a sale is made at retail. The rule is valid and constitutional.

Lyon Metal Products, Inc. v. State Board of Equalization (1997) 58 Cal.App.4th 906

Tax Injunction Act

The federal Tax Injunction Act (28 U.S.C. section 1341) required dismissal of a US District Court action because the state provided adequate remedy.

Jerron West, Inc. v. California State Board of Equalization (9th. Cir. 1997) F.3d 134

Santa Clara County Transactions (Sales) and Use Tax

A district tax which specifies that revenue would be spent for general county purposes is valid as a general tax, despite the passage of a related measure stating the voters' intent that the revenue be spent on specific projects. The district tax did not require a two-thirds majority vote.

Coleman v. County of Santa Clara (1998) 64 Cal.App.4th 662



Sierra Nevada, near Lake Italy

LEGISLATION

Convention and Trade Show Retailers

Provides that out-of-state retailers whose business activity in California is limited to convention and trade shows are required to register with the Board and collect and report use tax for their taxable sales at conventions and trade shows, including sales resulting from orders taken at those events. However, the bill provides that such retailers are not required to report use tax on any other sales to California consumers if (1) their only physical presence in California is to engage in convention and trade show activities, (2) they engage in those activities for seven or fewer days in a twelve-month period, and (3) they derived no more than \$10,000 in gross income from those activities in the prior calendar year.

Assembly Bill 258, Chapter 621, Statutes of 1997; operative April 1, 1998.

Pharmacists — Replacement Contact Lenses

Provides that licensed pharmacists dispensing replacement contact lenses under section 4124 of the Business and Professions Code shall be regarded as consumers of the lenses.

Senate Bill 13, Chapter 184, Statutes of 1997; operative January 1, 1998.

New Use Tax Permit

Provides that a qualifying person, as defined, who agrees to self-assess and pay use tax directly to the Board may apply for a *Use Tax Direct Payment Permit*. Qualifying persons include (1) a city, county, city and county, or redevelopment agency; or (2) a person who, during the calendar year immediately preceding the permit application, purchased for his

or her own use, or was the lessee of, tangible personal property that cost a total of at least \$500,000. Provides that the permit holder may issue a *Use Tax Direct Payment Certificate* to any registered seller, relieving that person from the responsibility for collecting use tax. Also provides that any permittee who issues such a certificate shall be subject to the same penalty provisions that apply to a seller or retailer.

Senate Bill 110, Chapter 702, Statutes of 1997; operative January 1, 1998.

County Taxes for Funding Libraries

Authorizes counties to impose, with voter approval, a transactions and use tax of 0.125 percent or 0.25 percent for funding public libraries. The tax must be approved by a two-thirds majority vote and can be imposed for no longer than 16 years.

Senate Bill 154, Chapter 88, Statutes of 1997; operative January 1, 1998.

Local Taxes for Specified Cities

Authorizes the City of Madera to impose a transactions and use tax of 0.25 percent for public safety services, subject to approval by the city council and a two-thirds majority of the voters.

Senate Bill 355, Chapter 409, Statutes of 1997; operative January 1, 1998.

Authorizes the City of Woodland to impose a transactions and use tax of 0.25 percent or 0.50 percent for general purposes, subject to approval by the city council and a simple majority of the voters.

Senate Bill 1472, Chapter 712, Statutes of 1997; operative January 1, 1998.

Water Common Carrier Fuel Exemption

Extends to January 1, 2003, the sunset date of the sales and use tax exemption for fuel and petroleum products used by water common carriers. The exemption was due to expire on January 1, 1998.

Assembly Bill 366, Chapter 615, Statutes of 1997, effective October 3, 1997.

Containers for Blood Products

Exempts from the sales and use tax the sale, storage, use, or other consumption of any container used to collect or store human whole blood, plasma, blood products, or blood derivatives, including, but not limited to, blood collection units and blood pack units.

Assembly Bill 993, Chapter 773, Statutes of 1997, effective October 8, 1997; operative April 1, 1998.

Board-Sponsored Technical and Housekeeping Measure

Among its numerous provisions, deletes two subdivisions relating to “engaged in business in this state” which were found unconstitutional.

Senate Bill 1102, Chapter 620, Statutes of 1997, effective January 1, 1998.

Managed Audit Program

Authorizes the Board to institute a managed audit program in which a business examines its own books, records, and equipment to determine whether it has properly applied tax during the audit period, and makes all computations and records available to Board staff for review and verification. In exchange, the taxpayer receives a fifty-percent reduction in the interest rate that would otherwise be due on audit deficiencies.

Senate Bill 1104, Chapter 686, Statutes of 1997, effective January 1, 1998.



Kesterson National Wildlife Refuge

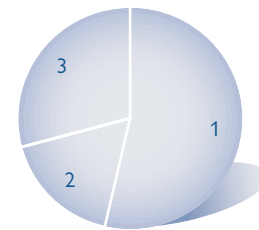
SPECIAL TAXES

In 1997-98 the Board administered 16 tax and fee programs in addition to property taxes and sales and use taxes. The oldest — the insurance tax — dates from 1911, while the newest program — the diesel fuel tax — was implemented in mid-1995. Insurance tax and alcoholic beverage tax revenues and a portion of cigarette tax receipts are allocated to the state's General Fund. Remaining special taxes program revenues fund specific state services, from transportation infrastructure to health education. The Board administers several programs in cooperation with other state agencies.

REVENUES

Revenues collected for all special taxes programs totaled \$5.35 billion in 1997-98. Revenue and fund allocation information for each program is found in the next section of this chapter and in the foldout tax chart inside the back cover of this report. Revenues from the insurance tax, collected by the State Controller's Office, are not included in the total revenue figures in this report.

Special Taxes
Revenues
1997-98
Billions of Dollars



1. Fuel	\$2.88
2. Alcohol and tobacco	\$0.92
3. Other special taxes	\$1.55

PROGRAMS

Special taxes programs encompass a broad range of activities and transactions. This section includes information regarding program revenue, significant program highlights, changes for the fiscal year, and the number of registrants for each program. More detailed information regarding the individual programs is found in the foldout tax chart inside the back cover of this report. The chart includes information regarding what is taxed, who pays, tax and fee rates, year-to-year revenue changes, and how tax revenues from each program are used on behalf of California's citizens.

Motor Vehicle Fuel License Tax

Motor vehicle fuel license tax collections totaled \$2.5 billion for 1997-98, based on the distribution of 13.9 billion gallons of gasoline. Program registration numbered 484 at the end of the fiscal year.

Aircraft jet fuel tax. Aircraft jet fuel tax collections for the year totaled \$1.8 million, based on the distribution of 88 million gallons of jet fuel. As of June 30, 1998, 191 jet fuel dealers were registered with the Board.

Diesel and Use Fuel Taxes

Revenues from diesel and use fuel taxes totaled \$384.96 million for 1997-98, including \$41.49 million from the interstate user tax. Reported taxable gallons and resulting revenue have increased significantly since the July 1995 implementation of the Diesel Fuel Tax Law.

Diesel fuel tax. As of June 30, 1998, there were 30,236 businesses and individuals registered for the diesel fuel tax program. Most are registered for fuel tracking or refund purposes. Ninety-three diesel fuel suppliers paid 87.2 percent of the 1997-98 diesel fuel tax receipts.

Interstate user tax. Most interstate motor carriers pay California's interstate user tax through the International Fuel Tax Agreement (IFTA), a compact among 48 states and 10 Canadian provinces. The vast majority of IFTA receipts are for diesel fuel use. California-based IFTA licensees numbered 9,720 at the end of the fiscal year. Carriers who travel only between California and Mexico also pay the interstate user tax. There were 1,122 of these carriers registered as June 30, 1998.

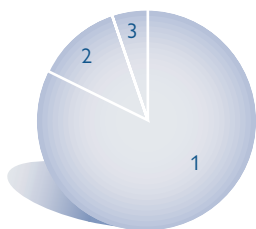
Use fuel tax. At the end of the fiscal year 1,911 fuel users and 310 fuel vendors were registered with the Board.

Oil Spill Response, Prevention, and Administration Fees

Oil spill response fee. No fees have been collected since 1991-92, the most recent year in which collections were required to bring the Oil Spill Response Trust Fund to its maximum level of \$50 million. Forty-six fee payers were registered at the end of 1997-98. The Board administers the fee in cooperation with the Department of Fish and Game.

Oil spill prevention and administration fee. Revenues collected in 1997-98 totaled \$24.1 million. Fiscal year-end registration listed 40 fee payers.

Alcoholic Beverage
Consumption 1997-98
Millions of Gallons



1. Beer 613.0
2. Wine 95.2
3. Distilled spirits 38.4

Underground Storage Tank Fee

Revenues totaled \$179.71 million in 1997-98. The fee, which the Board administers in cooperation with the Water Resources Control Board, was being paid by 8,980 tank owners as of June 30, 1998.

Childhood Lead Poisoning Prevention Fee

1997-98 fee collections totaled \$10.67 million. At the end of 1997-98, 2,591 fee payers were registered with the Board.

Alcoholic Beverage Tax

In 1997-98, revenues from this excise tax totaled \$270.95 million, a slight decrease from 1996-97. Program registration comprised 2,917 businesses at the end of the fiscal year.

Cigarette and Tobacco Products Tax

Revenues totaled \$647.28 million in 1997-98. While the cigarette tax rate remained unchanged, the tobacco products tax rate decreased for the second consecutive year, dropping from 30.38 percent to 29.37 percent of the wholesale price. At the end of June 1998, 1,536 taxpayers held permits under this program.

Emergency Telephone Users Surcharge

Total revenues for 1997-98 were \$86.09 million. As of June 30, 1998, 474 telephone service providers were registered with the Board.

Energy Resources Surcharge

Revenues totaled \$43.26 million in 1997-98, an increase of only 0.7 percent from 1996-97. At the end of the fiscal year, program registrants included 96 electric utilities and 28 public institutions, water districts, and irrigation districts. In contrast to the slight increase in revenue, the number of electric utility registrants jumped by nearly 75 percent as new energy providers entered California's recently deregulated electricity market.

Insurance Tax

Revenue from this tax, levied against insurance companies in lieu of all other state taxes except license fees and real estate taxes, totaled \$1.11 billion for 1997 business. As of June 30, 1998, 1,966 insurance companies were registered to pay the tax. The Board of Equalization, the State Controller, and the Department of Insurance share administrative responsibility for the program.

Tire Recycling Fee

Revenues totaled \$4.85 million in 1997-98. At fiscal year end, 7,464 businesses were registered for the program, which is administered in cooperation with the Integrated Waste Management Board.

Integrated Waste Management Fee

For 1997-98, revenues totaled \$46.69 million. As of June 30, 1998, 227 facilities were registered for the fee. The Board and the Integrated Waste Management Board share administrative responsibilities.

Hazardous Substances Tax

The Board administers five hazardous waste fee programs in cooperation with the Department of Toxic Substances Control. Fee revenues for 1997-98 and the number of businesses registered at the end of the fiscal year are shown below.

Activity fees. Revenue: \$0.38 million. Entities pay the fees based on permit applications and modifications and other applications. They are not required to maintain ongoing registration with the Board.

Disposal fee. Revenue: \$5.31 million; Registered facilities: 14.

Environmental fee. Revenue: \$10.63 million; Registered corporations: 50,521.

Facility fee and waste reporting surcharge. Revenues: \$7.99 million, including tiered permit fees for facilities that handle small quantities of waste; Program registrants: 217 facilities and 229 tiered permit facilities.

Generator fee and generator waste reporting surcharge fee. Revenue: \$19.93 million; Registrants: 8,917 fee payers with a total of 24,455 sites in the state.

Occupational Lead Poisoning Prevention Fee

Working with the California Department of Health Services, the Board collected revenues totaling \$2.21 million in fiscal year 1997-98. At the end of the fiscal year, 18,502 businesses were registered for the program.



Bristlecone pine, White Mountains

OPERATIONS

Staff in the Board's Excise Taxes, Fuel Taxes, and Environmental Fees divisions, located in the agency's Sacramento headquarters office, provide direct assistance to the businesses that pay special taxes and fees. The Board processed more than 200,000 special taxes program returns during the 1997-98 fiscal year, including 81,860 environmental fees returns, 61,544 excise tax returns, and 55,711 fuel tax returns.

Audits

Staff in the Excise Taxes, Fuel Taxes, and Environmental Fees divisions have the primary responsibility for audits of special tax program accounts. This year, special tax program audits yielded more than \$41.5 million in net tax deficiencies. Department audit staff identified more than \$14.6 million in refunds due.

Compliance Activities

Special Taxes Department staff ensure proper registering and licensing of businesses, assist taxpayers in interpreting tax and fee laws and regulations, and provide help with tax and fee returns. Compliance staff also collect delinquent tax payments.

Fuel Tax Compliance

Fuel tax evasion is an ongoing, nationwide problem that reduces government revenue while putting taxpaying businesses at a competitive disadvantage. Recognizing the significance of this issue in California, the Board's Fuel Taxes Division

- ◆ Continued working with other agencies, including the Internal Revenue Service, the California Air Resources Board, and the state Department of Food and Agriculture, in identifying illegal fuel blending and testing for fuel substitution by service stations.
- ◆ Continued to staff California Highway Patrol Truck Inspection facilities, issuing fuel trip permits and collecting outstanding tax owed, fees, and penalties. Board inspection facility staff also assist sales and use tax field offices by providing information on the movement into California of goods that may be subject to use tax. Collections in 1997-98 totaled approximately \$3.8 million.

Cigarette Tax Compliance

Cigarette tax evasion is another area of serious tax compliance concern. This year, the Board's cigarette tax evasion investigation class was certified by the state's Commission on Peace Officer Standards and Training (POST), enabling the agency to provide certified training to law enforcement agencies throughout the state. For more information, see "Highlights," page 12.

APPEALS

Those who disagree with special taxes program audit results or other Board decisions regarding the application of a tax or fee may seek resolution through the Board's administrative appeals process. For details on 1997-98 appeals, see the "Appeals" chapter, which begins on page 41. The agency's settlement program also provides an alternative means of dispute resolution.



Half Dome, Yosemite

LEGISLATION

Regulatory Fee Registry and Inventory

Requires the Board, Cal-EPA, and the Resources Agency, beginning with the calendar year 1999, to submit an annual report to the Trade and Commerce Agency showing a separate listing of the amount of all fees or charges collected or assessed by the respective agency, as specified; the number of permits or licenses issued; the number of fines assessed; and the rate basis on which fees or charges are assessed.

Assembly Bill 475, Chapter 719, Statutes of 1997, effective January 1, 1998.

Bay Area Gasoline Tax

Allows the members of the San Francisco Bay Area's nine-county Metropolitan Transportation Commission — the City and County of San Francisco, Alameda County, Contra Costa County, Marin County, Napa County, San Mateo County, Santa Clara County, Solano County, and Sonoma County — to impose an additional excise tax on gasoline, up to 10 cents per gallon. The funds raised would be earmarked for road maintenance, public transit systems, rail extensions, road safety improvements, and other transportation-related projects.

Assembly Bill 595, Chapter 878, Statutes of 1997, effective January 1, 1998.

Interstate User Tax

Adds a sales tax equivalent component to the tax paid by interstate truckers on diesel fuel purchased outside California and used on the state's roadways. The additional component is

equivalent to the statewide sales tax that applies to purchases made at the pump in California. The bill also establishes a refund for truckers who pay diesel fuel tax on California fuel purchases and use the fuel outside the state.

Assembly Bill 1269, Chapter 618, Statutes of 1997, effective October 3, 1997; operative January 1, 1998.

Diesel Fuel Supplier Bad Debt Deduction

In part, the bill

- ◆ Deletes the sunset provisions which allow a diesel fuel supplier to claim a bad debt deduction for accounts found worthless and charged off for income tax purposes;
- ◆ Limits the time under which the Board can enforce payment of an existing tax liability against the new owner of a business to no later than three years after the Board has been notified that the business was sold; and
- ◆ Allows the Board to issue refunds of diesel fuel tax for fuel lost in the ordinary course of handling, transporting, and storage.

Senate Bill 612, Chapter 76, Statutes of 1997, effective July 16, 1997.

Environmental Cleanup and Fee Reform Act

Changes various sections of the Health and Safety Code related to Board-administered hazardous waste fees. Decreases the generator fee, repeals the generator surcharge, and increases the environmental fee.

Senate Bill 660, Chapter 870, Statutes of 1997, effective January 1, 1998, with sections operative January 1, 1998, July 1, 1998, or January 1, 2001.

Board-Sponsored Technical and Housekeeping Measure

In part, the bill

- ◆ Allows disclosure of information regarding the items included in the measure and amounts of any unpaid or uncollected tax, interest, and penalties to directly interested successors, receivers, trustees, executors, administrators, assignees, and guarantors.
- ◆ Allows the Board to share motor fuel information with state and/or federal agencies in order to combine fuel tax evasion investigative efforts.
- ◆ Provides for a prorated annual flat rate fuel tax when a vehicle is added to an existing flat rate fleet, to allow the owner to maintain one annual renewal period.
- ◆ Conforms to federal law the penalty imposed for misuse of dyed diesel fuel by a person who knows or has reason to know that they are using the fuel in a taxable manner.
- ◆ Conforms the diesel fuel law statutes regarding interstate user license requirements in order to require an operator of a qualified motor vehicle to secure an interstate user license.
- ◆ Reduces the penalty for failure to obtain a diesel fuel license and provides penalty relief provisions in cases where no tax is determined to be due.

Senate Bill 1102, Chapter 620, Statutes of 1997, effective January 1, 1998.

REGULATIONS

Book Transfers of Fuel

Regulation 1114, *Book Transfers*, which interprets and explains the Motor Vehicle Fuel License Tax Law, was adopted to define book transfers, in-tank transfers, physical exchanges, and settlements; to provide that in-tank transfers and physical exchanges are fuel distributions while book transfers and settlements are not; and to describe required documentation and reporting requirements.

Title 18, California Code of Regulations, section 1114; effective January 1, 1998.

Emergency Telephone Users Surcharge Billing

Regulations 2401, *Definitions*, and 2406, *Liability for Surcharge Billed through Billing Agents*, which interpret and explain the Emergency Telephone Users Surcharge Law, were adopted to distinguish between “billing agents” and “service suppliers,” and to clarify that a billing agent — or a service supplier acting as a billing agent for other service suppliers — is not liable for remitting to the state the surcharge on services provided by, or billed on behalf of, other service suppliers, resellers, or billing aggregators.

Title 18, California Code of Regulations, sections 2401 and 2406; effective October 1, 1997.

APPEALS

PROPERTY TAXES

The elected members of the Board of Equalization hear appeals of the assessed values of state-assessed properties, private railroad cars, and taxable properties owned by local governments that are located in other jurisdictions. The Board also hears appeals of welfare exemption claim denials. While disputes may be resolved through discussion with staff, the Board members make the ultimate decision on all property tax appeals. All Board decisions are final.

In 1997-98, the Board received nearly 90 property tax appeals, including:

- ◆ 79 petitions from state-assessed public utilities;
- ◆ 1 petition under the private railroad car tax;
- ◆ 6 welfare exemption claims; and
- ◆ 3 applications for review, equalization, and adjustment for local government properties.



Burney Falls

SALES & USE TAXES and SPECIAL TAXES & FEES

Taxpayers who disagree with staff decisions regarding the imposition of sales tax or special tax and fee program assessments may seek resolution through the Board's administrative appeals process. After a taxpayer files a written appeal (petition), the dispute may be resolved quickly through discussion with a Board auditor or it may progress through a series of steps to a hearing before the elected members of the Board. Petitions for redetermination filed this year included

- ◆ 2,941 sales and use tax appeals; and
- ◆ 277 special taxes appeals.

Taxpayers whose appeals are denied by the Board may seek further remedy by filing an action in superior court. The agency also offers a settlement program for tax disputes. For information on 1997-98 sales and use tax settlements, please see page 28.

FRANCHISE & PERSONAL INCOME TAX APPEALS

The elected Board members act together as an appellate body in final actions of the California Franchise Tax Board (FTB), issuing opinions and rendering decisions interpreting the state's income tax laws. The Board hears appeals filed under the

- ◆ Bank and Corporation Tax Law;
- ◆ Taxpayers' Bill of Rights Law;
- ◆ Personal Income Tax Law; and
- ◆ Senior Citizens Property Tax Assistance and Postponement Law.

After a taxpayer files a written appeal with the Board, the agency's Appeals Section staff frames the issues of law and fact using information supplied by the parties to the dispute. After a hearing, or if a hearing is waived, the members of the Board make a determination. Taxpayers whose appeals are denied by the Board may seek further remedy by filing an action in superior court.

1997-98 Decisions

In 1997-98, the Board members made a total of 568 decisions for appeals filed under the Bank and Corporation Tax Law and the Personal Income Tax Law. The Board reviewed 138 of these cases in oral hearings. The remaining appeals, including 100 petitions for rehearing, were decided after review of the written record.

While any taxpayer dissatisfied with a final action of the Franchise Tax Board may file an appeal with the Board, taxpayers who have paid their tax liability may choose instead to directly file an action in superior court following final action by the FTB. Consequently, the statistics shown here do not necessarily reflect the total number of California taxpayers who have chosen to dispute a final action by the FTB.

REGULATIONS

Hearing Regulations and Taxpayer Reimbursement Claims

Regulations 5010-5095, the Board's *Rules of Practice*, were amended to eliminate redundancy and further clarify existing practices for Board hearings. The regulations also clarify procedures and standards for consideration of reimbursement claims made under provisions of the Taxpayers' Bill of Rights.

Title 18, California Code of Regulations, sections 5010–5095; effective April 8, 1998.



Garrapata State Beach

MEETING TAXPAYER NEEDS

The Board of Equalization's commitment to efficient and responsive taxpayer service helps ensure that businesses of all kinds have the information they need to properly comply with California's complex and changing tax laws. The agency offers a full range of options tailored to address the diverse needs of the state's business population — from automated 24-hour services to personal assistance with individual tax compliance questions.

EXPANDING TAXPAYER SERVICES

The Customer and Taxpayer Services Division, established in 1995 under the leadership of the members of the Board, coordinates the delivery of services to taxpayers, tax practitioners, and the general public. This fiscal year, the Board expanded the number and quality of available services and continued to take advantage of evolving communications technology and taxpayers' increasing interest in using automated services.

800 Number Information Center: 800-400-7115

In 1997-98, the Board's 800 Number Information Center began to accept all of the general information calls that were previously routed to field offices throughout the state. The new call routing system and greater taxpayer awareness of Center services resulted in a 91 percent call volume increase over 1996-97. While calls for 1997-98 totaled more than 760,000, the Center maintained an average caller wait time of 90 seconds or less. More than 43 percent of callers selected automated or recorded options. Next year, the number of customers served by automation is expected to exceed those served by phone staff.

Interactive Seller's Permit Verification Services

As noted on page 11, the Board began to offer 24-hour interactive seller's permit verification services in the summer of 1998. In their inaugural months of service, the new systems handled nearly 11,000 seller's permit verification requests each month.

Simplified Sales Tax Return Filing and Payment

The Board continues to seek new ways to make it easier for taxpayers to report and pay sales and use taxes. A new program that began in the spring of 1998, described on page 11, allows sales and use tax return payments to be made by NOVUS credit card. An earlier effort — the simplified EZ short-form return — is also proving quite successful. A new annual reporting review procedure has shown that many taxpayers do not need the longer, standard form: more than 45 percent of all registered sellers now report their sales using the EZ form.

Internet Site: www.boe.ca.gov

This year the agency greatly expanded the information available on its World Wide Web site and added several features to make the site more useful. Highlights include taxable sales data by city, county, and business type; 29 sections of the *Assessors' Handbook* — a collection of manuals that address property tax appraisal and assessment practice; and a link to the California Environmental Protection Agency's One-Stop Permit Assistance site.

Taxpayer Education

Sales and use tax classes. During the year, nearly 3,000 taxpayers took advantage of basic sales and use tax and tax return preparation classes offered by Board field offices.

Speakers bureau. The Board's sales and use tax field offices continued outreach to business groups by providing speakers for professional society and industry meetings.

Small business fairs. In 1997-98 the Board brought important sales and use tax compliance information to more than 3,200 taxpayers and tax practitioners through a series of 14 all-day small business tax fairs. Five fairs were cooperative interagency events.

Teleconference. For the sixth year, Board staff presented important information to participants in California, Oregon, and Nevada through an annual interagency "Tax Talk" teleconference.

Publications and newsletters. Board staff updated and created a number of publications this year. Newly developed publication 30, *Residential Property Assessment Appeals*, was distributed to each county for further distribution to the public. Three periodic tax newsletters continued providing timely information on changes in law and regulations as well as information regarding how tax applies to specific transactions and activities. For a full list of publications and newsletters, see the Appendix.

Laws and regulations. In addition to providing tax laws and regulations to the public, the Board began a pilot project this year that will result in distribution of its business and property taxes law guides on CD-ROM.

Translated publications. In 1997-98, the Board published the *Guide to Board of Equalization Services* in Chinese. Translations were also completed for *Tax Tips for Grocery Stores* (Vietnamese) and *The California Taxpayers' Bill of Rights* (Spanish).

Special notices. 1997-98 special notices alerted taxpayers to changes in special district sales tax rates and notified them of other significant changes in tax law, including new fuel tax refund procedures.

News releases. To keep the public informed of important tax news, the Board's Media Office issued 80 press releases during the year and fielded more than 600 phone inquiries from the press.

Taxpayer Assistance

Interpreter services. The Board's Equal Employment Opportunity Office uses annual language surveys to develop a list of bilingual and multilingual employees who can provide taxpayer services in languages other than English. The list currently includes more than 160 employees who together speak 35 different languages and dialects, including American Sign Language. More than eighty employees receive a bilingual pay differential because they regularly use their language skills in assisting taxpayers. Interpreter services are available in headquarters units, field offices, and for Board hearings.

Voter registration. Under federal "motor voter" law, the Board's offices make available and accept voter registration and change of address forms. In 1997-98, field offices distributed more than 17,316 forms to taxpayers; 361 completed forms were returned to the Board.



Hope Valley

TAXPAYERS' BILL OF RIGHTS ACTIVITIES

The Board's Taxpayers' Rights Advocate coordinates the agency's compliance with the spirit and the letter of the various California Taxpayers' Bills of Rights. This fiscal year, the Advocate established a toll-free number, 1-888-324-2798, making it easier for taxpayers to contact the Advocate's office regarding their disagreements with the Board and their rights under the law.

1997-98 Public Hearings

Public hearings sponsored by the Taxpayers' Rights Advocate provide taxpayers with the opportunity to directly present to the elected Board members their comments, suggestions, and concerns

regarding tax laws and administration. Taxpayers may comment on all Board-administered revenue programs and local property tax issues.

Business Taxes

Two public business taxes hearings were held in Culver City and Sacramento in October and November 1997. A number of taxpayers presented their concerns and made suggestions for consideration by the Board members.

As recommended in the 1996-97 *Business Taxes Bill of Rights Annual Report*, and in response to taxpayer suggestions and comments, the Board is taking the following actions to improve the quality of taxpayer service and education:

- ◆ Updating the sales and use tax audit manual and making it available on the Board's Internet site
- ◆ Revising forms used in preparing shelf tests used during sales and use tax audits, enabling an auditor to document an understanding with the taxpayer regarding the markup audit procedures and how the results will be used and applied
- ◆ Revising the waiver of limitations form, simplifying the language used and providing an instruction sheet listing the taxpayer's rights and responsibilities in signing the waiver
- ◆ Changing the Board's lien policy to exclude automatic liens on liabilities of less than \$1,000
- ◆ Requiring that liens be placed on an account only when necessary for sound business reasons

In October 1997, responding to the Advocate's 1996-97 report, the Consumer Use Tax Section developed acknowledgment letters that confirm receipt of taxpayer correspondence and inform taxpayers that they may pay the tax due to stop the accrual of interest.

Property Taxes

The Property Taxpayers' Bill of Rights annual hearings were rescheduled from the spring to the fall, to coincide with the Board's annual meeting with county assessors. The hearings give taxpayers and tax professionals the opportunity to comment on property tax programs and the Taxpayers' Rights Advocate's *Property Taxpayers' Bill of Rights Annual Report*.

This year, the Advocate's office

- ◆ Worked with the offices of Assembly Member Susan Davis and Board members Klehs and Dronenburg to secure passage of Assembly Bill 1178, which addresses solicitations made by businesses offering to file property tax appeals for a fee (see "Highlights," page 10 and "Property Taxes Legislation," page 20).
- ◆ Assisted the Property Taxes Department and Publications Unit in developing publication 30, *Residential Property Tax Assessment Appeals*, published in April 1998 and helped the Property Taxes Department revise the *Assessors' Handbook*.

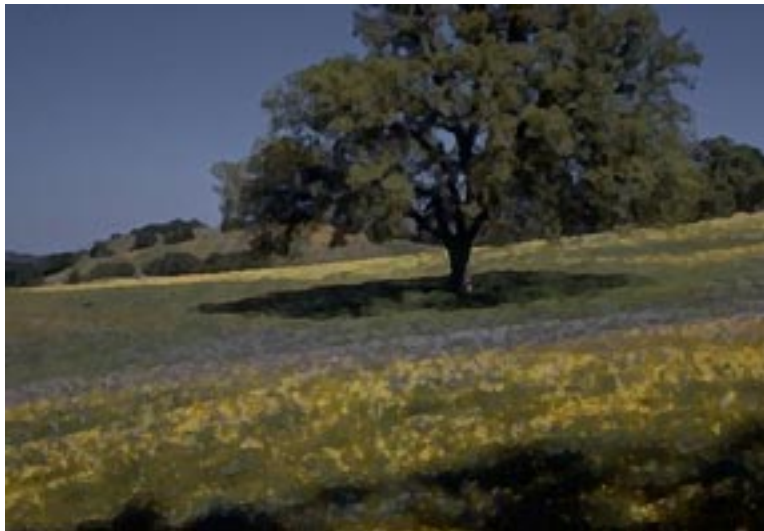
EVALUATING PUBLIC CONTACTS

To ensure quality service while meeting the requirements of the original Taxpayers' Bill of Rights, Board managers and supervisors observe and evaluate the public contact skills of Board employees. All Board employee performance reports and annual reviews must include the supervisor's comments regarding the employee's public contacts, whether made in person, in writing, or by telephone.

In addition, supervisors observe audit staff as they meet with taxpayers to discuss audit procedures or findings. The Board does not evaluate individual officers or employees based on the amount of revenue they assess or collect.

The Board continues to gather taxpayer comments regarding the agency's registration and account maintenance services. More than 97 percent of the nearly 10,000 respondents in 1997-98 were pleased with the overall process and with the services delivered by Board staff. When individuals do express dissatisfaction or make complaints, the Board makes every attempt to contact them and address the issues raised. When necessary, the agency modifies existing procedures or adopts new ones to ensure high levels of taxpayer service.

Overall, taxpayers seem satisfied with the level of service they receive and the professionalism and courtesy extended to them by Board staff. The agency receives many unsolicited letters each year from taxpayers who write to thank staff for their assistance.



Pinnacles National Monument

ECONOMIC ANALYSIS

NATIONAL ECONOMY

The 1997-98 US economy was characterized by very strong economic growth, continuing the trend of the previous fiscal year. Along with the strong economic growth, the inflation rate, unemployment rate, and interest rates dropped to lows not seen simultaneously since the 1960s. At the same time, the stock market continued its three-year surge and consumer confidence was at the highest level in thirty years. Moreover, for the first time since fiscal year 1968-69, the federal budget was in surplus. According to the 1998 U.S. *Economic Report of the President*, the 1997 economy turned in “its best performance in a generation.”

Gross Domestic Product

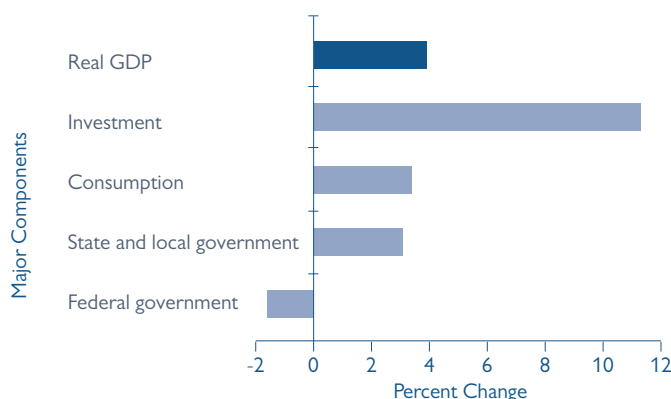
Real gross domestic product (GDP) — the broadest measure of the nation's output of goods and services — rose 3.9 percent in 1997, following a 3.4 percent increase in 1996. In the first half of 1998, real GDP grew by an average annualized rate of 3.7 percent. GDP growth in 1997 and the first six months of 1998 was well above the 10-year average of about 2.5 percent per year.

Real GDP by Sector

Consumer spending, which accounts for about two-thirds of total GDP, anchored overall growth in 1997 and during the first half of 1998. Real consumer spending increased by 3.4 percent in 1997 and increased by an average annualized rate of 6.1 percent in the first half of 1998. Investment spending was also stronger than average during this period. After adjustment for inflation, investment spending increased by 11.3 percent in 1997 and by an average annualized rate of 11.9 percent in the first half of 1998. In 1997, real spending on producers' durable equipment, a major component of investment spending, rose at double-digit rates for the fifth consecutive year.

Exports were the weakest component of the private-sector US economy during fiscal year 1997-98. In the first half of 1998, total real US exports declined at an average annualized rate of 5.2 percent, a sharp reversal from the 12.8 percent growth for all of 1997. Most of the decline was due to the fall 1997 financial crisis in Asia, an important US export market. The crisis increased the value of the US dollar relative to the currencies of South Korea, Indonesia, Thailand, Japan

1997 GROWTH IN REAL GDP AND MAJOR COMPONENTS



and other Asian countries. The Indonesian and South Korean currencies alone lost more than half of their value against the dollar during 1997. US exports to these and other Asian countries declined as the buying power of Asian currencies dropped.

Real spending on goods and services for all levels of government rose just 1.3 percent in 1997, about the same as in 1996. In 1997, federal government defense spending, which has not increased in the last decade, declined by 3.2 percent. The decline more than offset a 1.7 percent increase in federal nondefense spending.

Consumer Prices and the Unemployment Rate

One of the more remarkable characteristics of the economy in 1997 and the first half of 1998 was the combination of a low unemployment rate and a lack of inflationary pressures. The US unemployment rate averaged 4.9 percent in 1997, its lowest rate in 24 years. At the same time, the US consumer price index increased by just 2.3 percent in 1997, its lowest rate in 11 years. These trends continued into 1998: the unemployment rate averaged just 4.5 percent in the first half of 1998 while consumer prices increased at an annual rate of just 1.2 percent. The sum of the inflation and unemployment rates — the so-called “misery index” — was just 7.2 percent in 1997, the lowest level in thirty years.

The composite index of consumer prices for all goods and services rose 1.7 percent from July 1997 to July 1998. Over the same time period, consumer prices for commodities rose just 0.4 percent and prices of consumer commodities other than food declined by 0.6 percent. The Asian financial crisis contributed to the low consumer-price inflation rate. As previously noted, the value of the US dollar was strong compared to the declining value of many Asian currencies, holding down prices of imported goods and slowing overall commodity price inflation.

Federal Budget Deficit

As low interest rates and strong economic growth raised both household incomes and tax receipts, exceptional progress was made in reducing the federal government deficit in 1997 and 1998. The federal budget balance improved from a \$22 billion deficit in federal fiscal year 1997 to a \$70 billion surplus in federal fiscal year 1998.

CALIFORNIA ECONOMY

The California economy continued its strong, sustained growth in 1997, gaining more than 400,000 jobs — more than any year since 1988. Construction employment rose at an extremely rapid rate, reflecting increases in building activity, while growth in most other employment sectors was fairly well balanced. Overall, California wage and salary income rose 7.9 percent in 1997, which compared favorably to the 7.2 percent increase recorded for the nation as a whole.

Employment and Income Growth

California nonagricultural employment payrolls rose 3.3 percent in 1997, the fourth consecutive year of increased year-to-year growth. The growth in state nonagricultural payrolls was much higher

than the 2.6 percent growth in national payrolls. 1997 was the second consecutive year in which state payrolls grew faster than those of the nation as a whole, with the difference between the two being similar to that of the mid-1980s. As payroll jobs increased, the California unemployment rate continued to decline throughout the year. The unemployment rate fell from an average of 7.2 percent in 1996 to 6.3 percent in 1997. Though the gap between the California and US unemployment rates was closer than in recent years, the 1997 California rate was still 1.4 percent higher than the average US rate of 4.9 percent.

California personal income rose 6.0 percent in 1997, slightly higher than the 1996 increase of 5.8 percent and US personal income growth of 5.6 percent.

Employment Sectors

Construction

California construction employment rose 9.6 percent in 1997, making it the state's fastest-growing employment sector. Construction jobs were added more rapidly than any year since 1984.

Services

The service sector is the largest sector of the California economy, accounting for over 30 percent of all nonfarm jobs in the state. In 1997, 160,000 services jobs were added to payrolls, a 4.1 percent increase. Business services employment rose most rapidly, posting a 7.8 percent increase. Other rapidly increasing subsectors included social services, engineering and management, and motion picture production.

Manufacturing

California manufacturing employment increased by 3.3 percent in 1997, about the same as the previous year. The 1996 and 1997 increases in manufacturing employment were the fastest growth rates since 1984 by wide margins. The increases in California manufacturing firms' payrolls stand in sharp contrast to overall US manufacturing employment, which declined by 0.2 percent in 1996 and 0.9 percent in 1997.

Nearly all manufacturing subsectors added employees. Durable goods employment increased 4.1 percent, while nondurable goods employment rose 2.1 percent.

As mentioned in the "National Economy" section, US domestic producers increased their spending on durable equipment at double-digit rates for the five years ending in 1997. About one-third of this spending is for information-processing equipment, an important element of the California economy. As a result, the strong national increase in producers' durable good spending contributed significantly to California prosperity. California high-technology electronics employment increased 5.4 percent in 1996 and 4.9 percent in 1997.

Other Sectors

Trade, the second largest source of employment behind services, accounted for 23 percent of all nonfarm jobs in California in 1997. Jobs in the trade sector increased by 2.8 percent in 1997, with 83,000 jobs added. 1997 employment growth for transportation, communications, and utilities

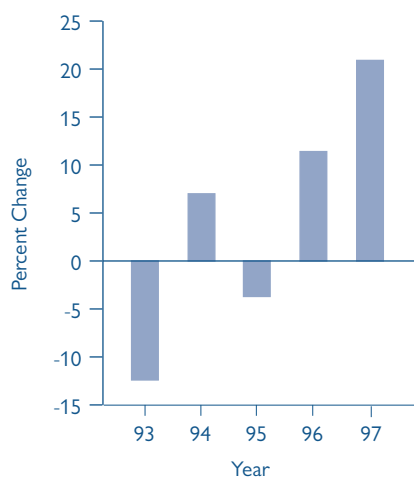
combined was 3.2 percent, nearly the same as the 3.3 percent overall employment gain for the year. State and local government employment rose 2.2 percent, mostly due to increased hiring of new teachers. Federal jobs declined by 3.5 percent, as both defense and nondefense employment dropped. Aerospace manufacturing employment, closely associated with defense spending, had a small increase of 1.6 percent, reversing a declining employment trend that began in 1989.

Building Construction and Home Prices

The value of all building construction jumped by 21 percent in 1997, up significantly from an 11 percent increase in 1996 (inflation-adjusted 1997 dollars). Both residential and nonresidential construction activity increased sharply. The value of nonresidential construction, which includes offices, stores, and industrial buildings, rose 25 percent in 1997. Residential-construction values

of homes and apartments increased 19 percent. A total of 111,700 home building permits were issued in 1997, up from 94,300 permits in 1996.

**GROWTH IN VALUE OF CALIFORNIA
BUILDING CONSTRUCTION PERMITS, 1993-1997**
Residential and nonresidential permits, constant 1997 dollars



The median price of an existing single-family detached home was \$186,490 in 1997. Statewide median home prices increased about 5 percent in 1997, the first increase since 1991. Santa Clara County and the rest of the San Francisco Bay Area reported some of the state's fastest rising home prices in both 1996 and 1997. The 1997 median home price in Santa Clara County, home to the state's strong high-tech industries, averaged \$316,250 in 1997. This was the highest median home price of any US metropolitan area.

Exports

California export sales to other countries increased by about 6 percent in 1997, a slight drop from the 8 percent gain recorded in 1996. The smaller 1997 increase continued the trend of slower export growth that followed double-digit export gains of 1994 and 1995. While nearly half of 1997 California exports went to Asia, the Asian financial crisis caused sharp declines in California exports to that region in the first half of 1998. For that period, the value of combined California exports to its top ten Asian trading partners was down 17.5 percent compared to the first half of 1997. Exports to other countries increased during this period, however, offsetting most of the Asian export declines. As a result, the total value of California exports in the first half of 1998 was only 0.1 percent lower than in the first half of 1997.

Consumer Prices

California consumer prices have risen modestly in recent years, consistent with consumer prices for the nation as a whole. The California Consumer Price Index, which measures prices for both goods and services, rose by 1.8 percent in 1997-98. Prices for taxable goods declined while prices for services increased.

TAXABLE SALES ACTIVITY

Transactions subject to California's sales and use tax totaled \$350.2 billion during the 1997-98 fiscal year, an increase of \$21.4 billion, or 6.5 percent, over the 1996-97 fiscal year. After a strong first half, taxable sales growth slowed somewhat in the second half of 1997-98. Despite the slowdown, quarterly taxable sales growth was higher in each quarter of the fiscal year than growth recorded in the corresponding quarters of 1996-97.

1997-98 TAXABLE SALES BY QUARTER

Growth in Actual Dollars Compared to Growth in Constant – Value Dollars

Quarter	Taxable Transactions		Percent Change From Prior Year In		
	Amount	Percent of Total	Actual Dollars	Constant Value Dollars	California Taxable Sales Deflator
July – September	\$ 86,574,215,000	24.7	7.1	7.5	–0.4
October – December	92,476,379,000	26.4	7.8	8.7	–0.9
January – March	81,159,522,000	23.2	5.3	7.4	–2.0
April – June	89,961,342,000	25.7	5.9	7.9	–1.9
Fiscal Year	\$350,171,458,000	100.0	6.5	8.0	–1.4

Real (inflation-adjusted) taxable sales grew by 8.0 percent during the fiscal year. Real growth exceeded current-dollar growth for the first time in recent memory, as the California Taxable Sales Deflator recorded a drop in prices of taxable commodities. The Deflator is an index that tracks price increases for only those commodities subject to the sales and use tax. As measured by the Deflator, the inflation rate was a negative 1.4 percent for the fiscal year. Price deflation occurred in every quarter.

The 8.0 percent gain in real taxable sales for 1997-98 was the largest increase since the 1983-84 fiscal year, when real growth was 11.7 percent. In that fiscal year current-dollar sales growth was a remarkable 15.9 percent, but inflation was running at an annual rate of four to five percent.

Retail stores in California reported taxable receipts of \$222.5 billion for fiscal year 1997-98, an increase of 5.9 percent over sales in the prior fiscal year. Taxable transactions for "Business and personal service establishments" totaled \$17.9 billion, an increase of 10.2 percent. This category comprises businesses whose tax liability is based mainly on sales of materials and parts, while much of their income is from nontaxable service and repair labor.

“All Other Outlets” had taxable transactions totaling \$109.8 billion, up 7.3 percent from the 1996-97 fiscal year. This category comprises manufacturers and wholesalers of all types, construction contractors, petroleum producers, publishers, and a multitude of part-time permittees, the bulk of whose business is exempt from sales tax. (See Appendix Table 19 for details on sales tax activity and the number of sales tax permittees by business type.)

Thirty-four of the 37 types of retail business shown in Appendix Table 19 experienced increases in sales. Retailers specializing in durable goods outperformed stores dealing mainly in nondurable goods. Durable goods retailers reported sales growth of 8.3 percent, while retailers specializing in nondurable goods saw their sales increase by 3.7 percent.

Durable Goods

New car dealers had a very strong year and set the pace for the durable goods category. New car dealers' sales increased by 10.9 percent over the prior fiscal year, to total \$32.5 billion. The last year in which new car dealer sales exceeded this year's performance was 1984-85, when sales for the category jumped by 14.2 percent.

According to the Department of Motor Vehicles, new vehicle registrations for fiscal year 1997-98 totaled 1,699,044, an increase of 60,612 registrations, or 3.7 percent, over fiscal year 1996-97. New automobile registrations totaled 1,393,274, an increase of 3.3 percent. New truck registrations numbered 305,770, an increase of 5.6 percent.

NEW VEHICLE REGISTRATIONS AND TAXABLE SALES OF NEW CAR DEALERS
by Quarter, 1997-98

	Number of Registrations of New Vehicles						Taxable Sales of New Car Dealers	
	Automobiles		Trucks		Total		Amount	Percent Change Year to Year
Quarter	Number	Percent Change Year to Year	Number	Percent Change Year to Year	Number	Percent Change Year to Year		
July – Sept	338,988	2.3	74,975	3.0	413,963	2.4	\$ 8,215,786,000	10.1
Oct – Dec	328,563	2.0	72,037	2.3	400,600	2.0	7,610,858,000	10.3
Jan – Mar	346,561	3.0	74,352	7.3	420,913	3.7	7,865,036,000	9.2
Apr – Jun	379,162	5.6	84,406	9.7	463,568	6.3	8,855,906,000	13.6
Fiscal Year	1,393,274	3.3	305,770	5.6	1,699,044	3.7	\$32,547,586,000	10.9

The continuing improvement of California's construction industry was reflected in the taxable sales gains of building material retailers. Sales for the building material group, which includes lumber and building material stores, hardware stores, plumbing and electrical supply stores, and paint, glass, and wallpaper stores, grew by 8.0 percent to total \$16.1 billion. Construction contractors posted taxable sales of \$14.1 billion, an increase of 10.0 percent over the prior fiscal year. Household and home furnishings stores also posted a healthy increase in taxable transactions during the fiscal year, another by-product of the improvement in the construction industry. These stores reported taxable sales of \$6.3 billion, an increase of 10.5 percent.

Another group of durable goods retailers, specialty stores, fared well during the fiscal year. Their sales totaled \$34.9 billion, an increase of 7.6 percent from the prior fiscal year. The specialty store group includes such retailers as sporting goods, jewelry stores, office and school supply stores, toy stores, book stores, and a variety of other specialized retailers. Jewelry stores showed the largest taxable sales increase for the group with transactions of \$1.5 billion, a gain of 11.5 percent from the prior fiscal year.

Nondurable Goods

In the nondurable goods category, taxable sales by service stations declined by 2.9 percent during the 1997-98 fiscal year, to \$18.5 billion. Service stations have changed over the years from specialty businesses that sold gasoline and automotive supplies and offered repair service, to today's mini-mart operations that sell a variety of items. While many of those items are not related to automobiles, gasoline remains service stations' main stock in trade.

Volatile gasoline prices produced large fluctuations in quarterly service station sales for the third consecutive fiscal year. While the average yearly price of gasoline declined by only 1.6 percent, quarterly price changes ranged from an increase of 14.1 percent during the fourth quarter of 1997 to a decrease of 11.8 percent in the second quarter of 1998. Gasoline consumption, however, remained fairly stable. California motorists purchased 13.9 billion gallons of gasoline in 1997-98, an increase of only 1.5 percent from 1996-97.

Prior to this year, Appendix Table 19 showed a separate line for department stores. This year, department stores have been combined with limited-price variety stores and other general merchandise stores in a category called "General Merchandise Stores." Limited-price variety has become a very sparsely populated category in recent years. The increasing presence of discounters and the shifting patterns in lines of merchandise carried by traditional department stores has blurred the line between department stores and other general merchandise stores. General merchandise stores posted taxable sales of \$32.1 billion, an increase of 6.1 percent over the 1996-97 fiscal year.

Other nondurable goods retailers also reported sales increases for the fiscal year. Apparel stores did \$11.8 billion in taxable business, an increase of 4.9 percent. Restaurants posted sales of \$29.1 billion, an increase of 6.2 percent.

TAXABLE TRANSACTIONS OF SERVICE STATIONS COMPARED TO GASOLINE DISTRIBUTIONS
by Quarter, 1997-98

Quarter	Taxable Transactions			Gasoline Distributions		
	Amount	Percent Change Year to Year	Gallons	Percent Change Year to Year	Estimated Expenditure	Percent Change Year to Year
July – Sept	\$ 5,008,028,000	-1.5	3,542,160,000	1.4	\$ 4,650,856,000	2.4
Oct – Dec	4,874,562,000	8.4	3,470,735,000	0.7	4,595,253,000	14.9
Jan – Mar	4,182,288,000	-8.4	3,349,638,000	3.4	3,791,790,000	-5.4
Apr – Jun	4,396,280,000	-9.7	3,563,478,000	0.7	4,112,254,000	-11.1
Fiscal Year	\$ 18,461,158,000	-2.9	13,926,011,000	1.5	\$ 17,150,153,000	-0.2

REVENUE GROWTH

Tax programs administered by the Board of Equalization produced state and local revenues totaling \$33,168,296,000 during fiscal year 1997-98. This was an increase of \$1.9 billion, or 5.9 percent, over fiscal year 1996-97. Revenue growth occurred solely due to the continuing improvement in the California economy, as there were no major tax rate changes during the fiscal year. Revenues from each tax are presented in the “Comparison of Revenues” table on the next page. Additional detail and historical comparisons are provided in Appendix Table 2.

Sales and Use Taxes

The combination of all state and local sales and use taxes produced \$28,143,715,000 in revenue, advancing 6.9 percent during the fiscal year. Sales and use taxes comprise 85 percent of the revenue from Board-administered tax programs. The state's portion of the sales tax grossed \$17,765,162,000. The portion allocated to other jurisdictions — cities, counties and special districts — totaled \$10,378,553,000, including allocations to the Local Revenue Fund and the Public Safety Fund. (Details are given in Appendix Tables 19 through 23.)

By the end of 1997-98 special district taxes were being levied by 32 jurisdictions encompassing 23 counties. Eighty-six percent of all taxable sales in the state occur in these counties. A list of special tax districts and revenue information is found in Appendix Table 21C.

Special Taxes

During the year under review, the state's fuel taxes totaled \$2,884,572,000, a 0.7 percent increase from fiscal year 1996-97. Distribution of gasoline for highway use increased 1.5 percent to 13.93 billion gallons. (Historical data on assessments are presented in Appendix Tables 24 - 26.)

The state's excise taxes on alcoholic beverages produced nearly the same revenue in 1997-98 as in the prior fiscal year. Alcoholic beverages produced \$270,950,000 for the fiscal year. Revenues from beer and wine declined marginally to \$143,931,000, while revenues from distilled spirits increased by a very small amount to reach \$127,019,000. (See Appendix Tables 27 - 29.)

Excise taxes on cigarettes and other tobacco products declined in 1997-98. Both cigarette tax revenue and revenue from distribution of other tobacco products declined. Cigarette consumption also dropped, as it has every year since the passage of Proposition 99 in November 1988. That initiative raised the tax on cigarettes by 25 cents per pack and imposed a tax on previously untaxed tobacco products such as cigars and pipe tobacco. Revenue from the state's three tobacco taxes totaled \$647,283,000 for fiscal year 1997-98, a decline of 3.0 percent from the prior fiscal year. (See Appendix Tables 30A and 30B for additional data.)

The electrical energy surcharge, levied on the use of electricity in California, produced \$43,264,000, a 0.7 percent increase over the prior year. The emergency telephone users surcharge, used to fund the 911 statewide emergency number system, yielded \$86,091,000, an increase of 5.5 percent.

Hazardous substance taxes and other environmental fees totaled \$308,862,000, an increase of 4.9 percent over the prior year. All of these taxes and fees are used to fund specific environmental programs.

Property Taxes

Locally collected property taxes on state-assessed properties grew to \$754,382,000, an increase of 3.3 percent. The timber yield tax, levied at the time timber is harvested in lieu of any annual ad valorem property tax, totaled \$22,993,000, a decline of 14.1 percent. The private railroad car tax, levied on railroad cars owned by firms other than operators of railroads, produced \$6,184,000, an increase of 0.9 percent.

COMPARISON OF REVENUES ♦ 1996-97 AND 1997-98 (in thousands of dollars)

Revenue Source	1996-97	1997-98	Percent Change
Sales and Use Taxes			
State sales tax (5%)	\$ 16,676,098	\$ 17,765,162	6.5
State disaster relief tax (1/4 of 1%) ¹	368	-31	— ⁵
Local revenue fund state sales tax (1/2 of 1%)	1,676,091	1,783,397	6.4
Public safety fund sales tax (1/2 of 1%)	1,674,951	1,783,581	6.5
City and county sales tax (1%)	3,335,999	3,550,264	6.4
County transportation tax (1/4 of 1%)	832,297	886,656	6.5
Special district taxes	2,123,074	2,374,150	11.8
Other taxes and fees	847	536	-36.7
Totals	26,319,724	28,143,715	6.9
Fuel Taxes and Fees			
Gasoline and jet fuel	2,495,027	2,499,609	0.2
Diesel and use fuel ²	370,308	384,963	4.0
Totals	2,865,334	2,884,572	0.7
Alcoholic Beverage Taxes	271,067	270,950	0.0
Cigarette and Tobacco Products Taxes			
Cigarette tax	168,779	162,650	-3.6
Cigarette and tobacco products surtax	465,090	451,798	-2.9
Breast cancer research cigarette stamp tax	33,757	32,835	-2.7
Totals	667,626	647,283	-3.0
Electrical energy surcharge	42,974	43,264	0.7
Emergency telephone users surcharge	81,595	86,091	5.5
Hazardous substances taxes and other environmental fees ³	294,343 ^r	308,862	4.9
Local taxes on state assessed properties ⁴	730,280	754,382	3.3
Timber yield tax	26,761	22,993	-14.1
Private railroad car tax	6,130	6,184	0.9
Grand totals	\$ 31,305,835 ^r	\$ 33,168,296	5.9

^{1/} This tax was in effect from December 1, 1989, through December 31, 1990.

^{2/} Includes diesel fuel taxes collected under the International Fuel Tax Agreement (IFTA), implemented on January 1, 1996.

^{3/} Includes revenues from the hazardous substances tax, integrated waste management fee, underground storage tank maintenance fee, tire recycling fee, oil spill prevention and administration fee, oil spill response fee, childhood lead poisoning prevention fee, occupational lead poisoning prevention fee, and oil recycling fee.

^{4/} Collected by county tax collectors.

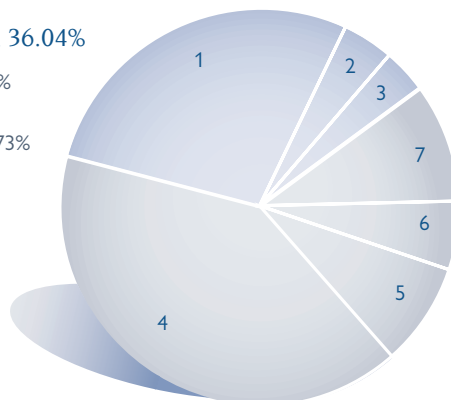
^{5/} Not computed.

^{r/} Revised.

SOURCES OF STATE REVENUE, 1997-98

■ Board of Equalization 36.04%

1. Sales and use taxes 28.20%
2. Fuel taxes 4.11%
3. Other Board revenues 3.73%



■ Other Agencies 63.96%

4. Personal income tax 40.28%
5. Bank and corporation tax 8.42%
6. Motor vehicle and trailer taxes 5.59%
7. Other revenues 9.67%

Source: Governor's Budget, January 1999

Revenue Source	Revenue (in thousands)	Percent Change from 1996-97	Percentage of Total State Revenue
Board of Equalization			
Major Taxes and Licenses			
Sales and Use Tax ¹	\$ 19,554,527	6.07	28.20
Gasoline and Jet Fuel Tax	2,469,173	1.35	3.56
Diesel and Use Fuel Taxes	384,650	3.95	0.55
Insurance Companies Tax	1,221,285	1.81	1.76
Cigarette and Tobacco Products Tax	644,303	-3.17	0.93
Alcoholic Beverage Tax	270,948	-0.04	0.39
Totals, Major Taxes and Licenses	\$ 24,544,886	5.00	35.40
Totals, Minor Revenues ²	444,401	4.55	0.64
Grand Total, Board of Equalization	\$ 24,989,287	4.99	36.04
Other Agencies			
Major Taxes and Licenses			
Personal Income Tax	\$ 27,925,096	19.99	40.28
Bank and Corporation Tax	5,837,426	0.84	8.42
Motor Vehicle "in lieu" Tax	3,840,551	8.61	5.54
Trailer Coach Fees "in lieu" Tax	34,978	-2.30	0.05
Motor Vehicle Registration and Other Fees	1,741,273	5.35	2.51
Estate, Inheritance, and Gift Tax	780,197	30.19	1.13
Horse Racing Revenue	83,630	-9.46	0.12
Totals, Major Taxes and Licenses	\$ 40,243,151	15.05	58.04
Totals, Minor Revenues	4,103,614	3.94	5.92
Grand Total — Other Agencies	\$ 44,346,765	13.92	63.96
Total State Revenue	\$ 69,336,052	10.53	100.00

1/ Sales and Use Tax includes revenues from the state sales tax, the state disaster relief tax, and the local revenue fund state sales tax.

2/ Board of Equalization Minor Revenues include private railroad car, electrical energy, emergency telephone, and environmental taxes and fees.



State Board of Equalization

1997-98 Annual Report

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TAXES AND FEES ADMINISTERED BY
THE CALIFORNIA STATE BOARD OF EQUALIZATION, 1997–98

TAX PROGRAM	YEAR IMPLEMENTED	WHAT IS TAXED	WHO PAYS; NUMBER OF REGISTRANTS AS OF JUNE 30, 1998	TAX RATE	97–98 REVENUES/ CHANGE FROM 96–97	FUND ALLOCATION — HOW FUNDS ARE USED
SALES AND USE TAXES						
Sales and Use Tax	Sales tax – 1933 Use tax – 1935	Sales of tangible personal property; use or storage of property when sales tax not paid	Retail sellers of tangible personal property; purchasers, under certain circumstances; 967,858	6% (state portion of uniform rate of 7.25%)	\$19.55 billion +6.52% \$1.78 billion +6.49%	5.0% General Fund 0.5% Local Revenue Fund 0.5% Local Public Safety Fund
Bradley-Burns Uniform Local Sales and Use Tax	1956	see above	see above; 967,858	1.25% (local portion of uniform rate of 7.25%)	\$4.44 billion +6.44%	1.0% County and incorporated city general funds 0.25% County transportation funds
District Transactions and Use Tax	1970	see above	see above; applicable only to special tax districts; n/a	0.125% to 0.50% per tax	\$2.37 billion +11.83%	Special tax districts — transportation, hospitals, schools, open space, other
SPECIAL TAXES AND FEES						
Excise Taxes Cigarette and Tobacco Products Tax Cigarettes	1959	Cigarette distributions	Cigarette distributors; 1,536	37¢ per package of 20 cigarettes	\$647.28 million –3.05%	2¢ Breast Cancer Fund 10¢ General Fund 25¢ Special Fund — see below
Other tobacco products	1989	Distribution of cigars, chewing tobacco, pipe tobacco, and snuff	Tobacco products distributors (registrants included with cigarette figures)	29.37% of the wholesale price	Included with revenue for cigarettes	Special Fund — health, fire prevention, environmental conservation
Energy Resources Surcharge	1975	Use of electricity	Electric consumers and utilities; 124	0.0002¢ per kilowatt hour (two tenths of a mill)	\$43.26 million +0.67%	Energy Resources Programs Account — ongoing energy programs and projects
Emergency Telephone Users Surcharge	1977	Charges for intrastate telecommunication services	Telephone users, paid through telephone service suppliers; 474	0.72%	\$86.09 million +5.51%	Local entities — operation of the 911 system
Alcoholic Beverage Tax	1933	Alcoholic beverages	Persons manufacturing, selling, or importing alcoholic beverages; 2,917	(all rates per gallon) distilled spirits 100 proof or lower—\$3.30 over 100 proof—\$6.60 beer & wine —\$0.20 Champagne and sparkling wine —\$0.30	\$270.95 million –0.04%	General Fund — education, public safety, health and social services programs, resource management, other
Insurance Tax	1911	Gross premium sales; underwriting profits of ocean marine insurance	Insurance companies; 1,966	2.35%	\$1.11 billion +0.63%	General Fund
Integrated Waste Management Fee	1989	Disposed waste, by volume	Solid waste landfill operators and wood waste facility operators; 227	\$1.34 per ton-solid waste \$0.75 per ton-wood waste	\$46.69 million +3.28%	Integrated Waste Management Fund — landfill-related environmental programs
Tire Recycling Fee	1991	New tires purchased from a tire retailer	Person purchasing new tire; paid through tire retailers; 7,464	25¢ per tire	\$4.85 million +13.54%	Programs for recycling, disposal, and reuse of used tires
Fuel Taxes Diesel Fuel Tax	1995	Sale of diesel fuel upon removal from the terminal rack	Suppliers of diesel fuel; 93 suppliers, 30,143 other accounts	18¢ per gallon	\$384.96 million +3.96%	Transportation Tax Fund — to construct and maintain public roads and mass transit systems
Interstate User Tax	1995	Use of diesel fuel to operate qualified motor vehicles interstate	Motor carriers who use diesel fuel in interstate operations; 10,842	18¢ per gallon 1997 26.3¢ per gallon eff. 1/98	\$41.49 million +6.63% included in diesel revenue	see above
Use Fuel Tax	1937	Vehicular use of liquid natural gas, compressed natural gas (CNG), and certain other fuels	Owners and operators of vehicles powered by covered fuels, use fuel vendors; 2,221	6–18¢ per gallon of fuel (varies by type), 7¢ per 100 cubic feet of CNG, or annual fee based on vehicle weight	Included with revenue for diesel fuel	see above



TAXES AND FEES ADMINISTERED BY THE CALIFORNIA STATE BOARD OF EQUALIZATION, 1997–98

TAX PROGRAM	YEAR IMPLEMENTED	WHAT IS TAXED	WHO PAYS; NUMBER OF REGISTRANTS AS OF JUNE 30, 1998	TAX RATE	97–98 REVENUES/ CHANGE FROM 96–97	FUND ALLOCATION — HOW FUNDS ARE USED
SPECIAL TAXES AND FEES (continued from previous page)						
Motor Vehicle Fuel License Tax	1923	The first distribution of gasoline in California	Distributors and brokers of gasoline; 484	18¢ per gallon	\$2.50 billion +0.17%	see Diesel Fuel Tax
Aircraft Jet Fuel Tax	1969	Sales of jet fuel to jet fuel users	Jet fuel dealers; 191	2¢ per gallon	\$1.80 million +17.43%	State Transportation Fund, Aeronautics Account — airport programs
Underground Storage Tank Maintenance Fee	1989	Storage of petroleum products in underground tanks	Owners of underground fuel storage tanks; 8,980	1.2¢ per gallon	\$179.71 million +24.37%	Funds a program that ensures cleanup of leaking underground petroleum storage tanks
Childhood Lead Poisoning Prevention Fee	1993	Motor vehicle fuel; architectural coatings; lead releases into California air	The petroleum industry, the architectural coatings industry, and facilities reporting releases of lead into the air; 2,591	Reestablished each reporting period	\$10.67 million –10.85%	Funds a lead poisoning prevention program to establish standards of care for evaluating children at risk of lead poisoning and to screen children found to be at risk
Oil Spill Response, Prevention, and Administration Fees Oil Spill Prevention and Administration Fee	1991	Crude oil and petroleum products received at marine terminals in CA or moved through pipelines	Owners of crude oil and petroleum products and marine pipeline operators; 40	4¢ per barrel	\$24.10 million +4.31%	Funds used in part to finance studies on the environmental and economic effects of oil spills
Oil Spill Response Fee	1991	Petroleum products received at marine terminals, moved through pipelines, or received at refineries	Owners of petroleum products and pipelines, operators of oil refineries; 46	25¢ per barrel	No fees collected in 1997–98; \$50 million Oil Spill Response Fund is at maximum	Oil Spill Response Trust Fund — oil spill-related environmental programs
Environmental Fees Hazardous Substances Tax Environmental Fee	1989	Activity by certain types of corporations	Corporations classified as using, generating, storing, or conducting activities relating to hazardous materials, which employ 50 or more employees; 50,521	\$200–\$9500 per year, based on number of workers employed in California more than 500 hours annually	\$10.63 million +3.37%	Funds used to support regulation of hazardous waste management and to pay for cleanup of contaminated sites
Activity Fee	1989	Applications for hazardous waste permits, variances, or classification. Production or transportation of extremely hazardous waste.	Hazardous waste activity applicants; n/a	Varies according to activity requested	\$0.38 million –28.87%	see above
Generator Fee and Generator Fee Surcharge	1986	Generation of hazardous waste at a specific site	Generators of hazardous waste who do not pay a facility fee; 8,917	\$140–\$56,160, based on amount of waste generated	\$19.93 million –11.45%	see above
Disposal Fee	1985	Hazardous waste disposed of by depositing on or into land	Hazardous waste disposal facilities; 14	Rates per ton vary, depending on waste category, volume, and disposal method	\$5.31 million –15.36%	see above
Facility Fee and Tiered Permit Fees	1986	Storage, treatment, or disposal of hazardous waste	Hazardous waste facility operators; 446	Varies according to size and type of facility	\$7.99 million –16.09%	see above
Occupational Lead Poisoning Prevention Fee	1991	Industrial activity by employers in certain industrial classifications	Employers with 10 or more employees in industries with documented evidence of potential occupational lead poisoning; 18,502	\$202–\$2,316 per year, based on number of employees and industrial classification	\$2.21 million –4.99%	Occupational lead poisoning prevention program
PROPERTY TAXES						
Private Railroad Car Tax	1938	Private railcars operated within California	Railcar owners; 282	1.058% of assessed value	\$6.18 million +0.88%	General Fund
Timber Yield Tax	1977	Timber harvested for forest products	Timber owners; 3,200	2.9% of immediate harvest value	\$22.99 million –14.08%	Distributed to counties where timber was harvested